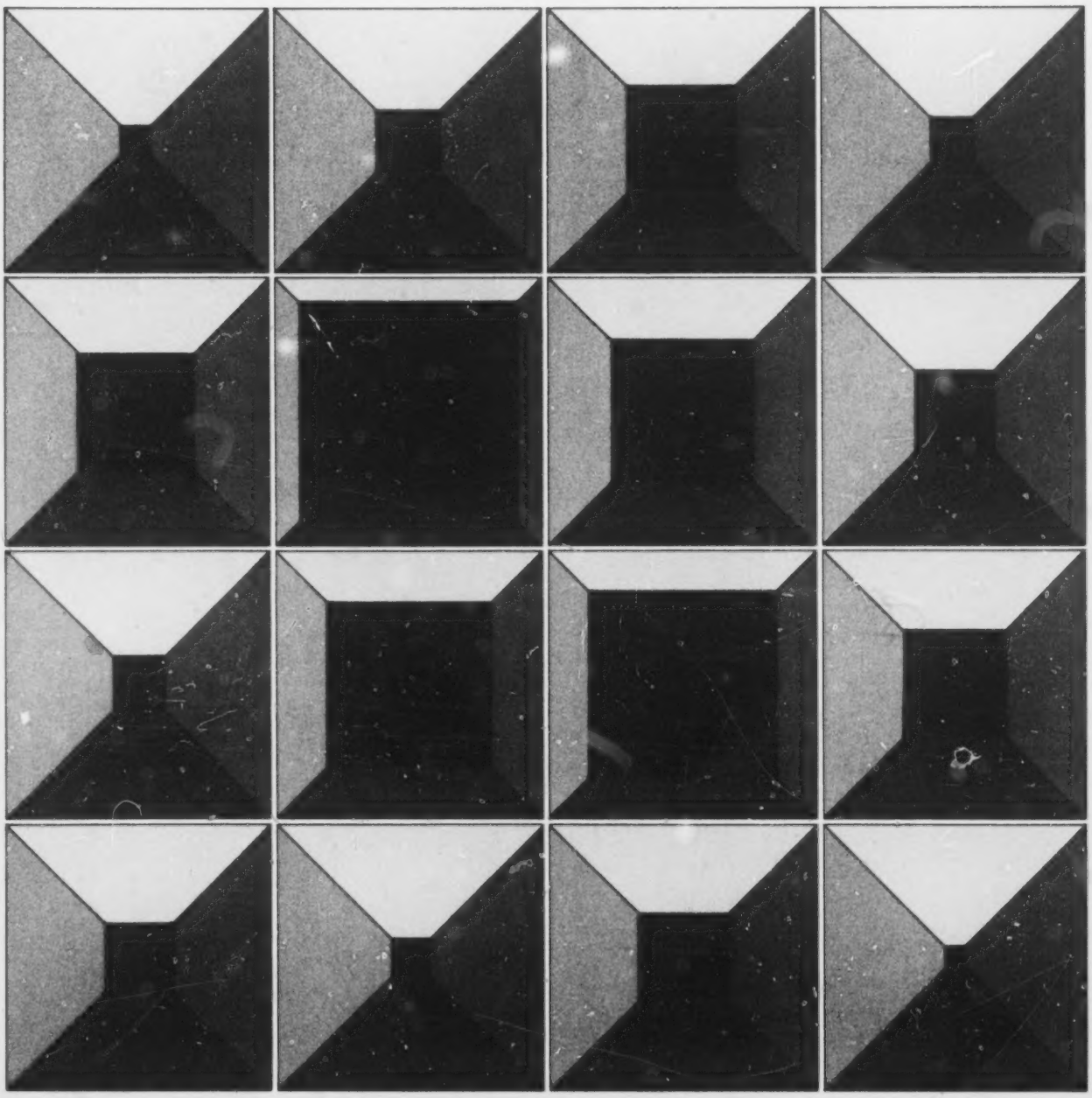
BACKGROUND PAPER

Dislocated Workers: Issues and Federal Options

A CBO Study
July 1982

Congress of the United States
Congressional Budget Office



J932-30

DISLOCATED WORKERS:
ISSUES AND FEDERAL OPTIONS

The Congress of the United States
Congressional Budget Office

For sale by the Superintendent of Documents, U.S. Government Printing Office
Washington, D.C. 20402

PREFACE

Of the currrently unemployed workforce, a portion can be termed dislocated. Even as the economy recovers from the current recession, these involuntarily unemployed workers will face serious problems finding new jobs because of structural changes in the economy. This study, prepared at the request of the Senate Budget Committee, examines the sources and magnitude of labor dislocation and analyzes options for possible federal aid. In keeping with CBO's mandate to provide objective and nonpartisan analysis, the paper makes no recommendations.

Steven Sheingold of CBO's Human Resources and Community Development Division prepared this paper under the supervision of Nancy M. Gordon and Martin D. Levine. John Engberg provided the computer modeling for estimating the number of dislocated workers. Johanna Zacharias edited the paper, assisting greatly with substantial portions of it. The author wishes to acknowledge the technical and critical contributions of many people, particularly Stephen Baldwin, Marc Bendick, Jr., Walter Corson, David Delquadro, Alfred B. Fitt, Richard Hendrix, Louis Jacobson, Thomas Joyce, David Longanecker, and Larry Orr. Jili Bury typed the many drafts and prepared the paper for publication.

Alice M. Rivlin
Director

July 1982

CONTENTS

		Page
PREFACE		iii
SUMMARY		ix
CHAPTER I.	INTRODUCTION	3
	Underlying Issues	3
	Plan of the Paper	6
CHAPTER II.	THE CAUSES OF DISLOCATION AND IMPEDIMENTS TO ADJUSTMENT	7
	The Changing Structure of the Economy and the Causes of Dislocation	7
	Impediments to Adjustment--Characteristics of Dislocation	12
	The Adjustment Experience of Dislocated Workers: Past Evidence	16
CHAPTER III.	VIEWS ON ADJUSTMENT AID, THE SIZE OF THE DISLOCATION PROBLEM, AND CURRENT ASSISTANCE PROGRAMS	19
	Estimating the Scope of the Problem	20
	Current Programs That Aid the Unemployed	21
CHAPTER IV.	WHOM TO ASSIST--QUESTIONS OF ELIGIBILITY	31
	Single Criteria	32
	Multiple Criteria	35
	A Fundamental Departure--Linking Aid To Mass Layoff or Plant Closing	40
CHAPTER V.	PROGRAMMATIC APPROACHES TO AIDING DISLOCATED WORKERS	43
	Readjustment Services	43
	Income Replacement	54
	Income Replacement Linked to Adjustment Services	55

TABLES

		Page
TABLE 1.	ACTUAL AND PROJECTED ANNUAL GROWTH RATES FOR EMPLOYMENT IN PARTICULAR INDUSTRIES	9
TABLE 2.	ESTIMATED NUMBERS OF DISLOCATED WORKERS IN JANUARY 1983 UNDER ALTERNATIVE ELIGIBILITY STANDARDS AND ECONOMIC ASSUMPTIONS	38
TABLE 3.	FEDERAL COSTS OF PROVIDING READJUSTMENT SERVICES TO DISLOCATED WORKERS DEFINED BY SELECTED ELIGIBILITY CRITERIA	52

SUMMARY

Even when the U.S. economy has recovered from the present recession, some portion of the workforce that is now unemployed will remain jobless despite concerted efforts to return to work. This group, identified as dislocated workers and composed of people who have been displaced by structural changes in the economy, will face particular difficulty adjusting to changed employment demands and will likely endure longer-than-usual periods of joblessness. Whether the federal government should provide special assistance to such workers and what form any aid might take are likely to be important questions as the Congress considers a number of proposals that have been advanced to assist dislocated workers.

SOURCES AND SCOPE OF THE PROBLEM

Several factors are likely to contribute to substantial displacement of labor in the 1980s. First, shifts in consumer demand and in foreign competition will cause many traditional manufacturing industries such as steel production, automotive manufacturing, and the textile industry to grow slowly or actually decline in the years ahead. Second, the modernization of many older industries through labor-saving technology will further reduce the need for workers in those sectors. In particular, the diffusion of microelectronic technology could cause the loss of three million jobs by the end of the decade--or 15 percent of the current manufacturing workforce.

Some workers who become unemployed due to these changes will face serious problems in becoming reemployed. Adjustment is likely to be particularly difficult for older blue-collar workers with long service records in their former jobs; they will not easily find new employment and may suffer financial loss when they do. Complicating adjustment for such workers will be differences in skill requirements between the jobs lost and those that may be available, as well as differences in their locations.

The number of workers likely to be dislocated in the near future is a function of the exact characteristics used to define dislocation--age, length of job tenure, occupation, industry, and duration of employment. Applying several different definitions and a range of assumptions regarding future economic conditions, the number of dislocated workers in 1983, when recovery is expected to be under way, could range from 100,000 to 2.1 million--that is, from about 1 percent of all unemployed workers to 20

96-340 O - 82 - 2

percent. At the lower extreme, if only workers who are displaced from declining industries and who remain jobless for longer than 26 weeks are considered dislocated, the number ranges from 100,000 to 150,000--most of whom would be blue-collar workers in the Northeast and Midwest. On the other hand, if all unemployed workers in declining geographic areas are also considered dislocated, the number could range from 1.7 million to 2.1 million; about 50 percent would be blue-collar workers, but nearly 25 percent would be managerial, sales, and clerical workers.

The Congress confronts difficult questions concerning dislocated workers. Do they warrant special assistance and, if so, what kind? Some observers view dislocation as a private market problem for which direct federal involvement is unnecessary or inappropriate. On the other hand, proponents of special aid contend that dislocated workers face a uniquely difficult employment situation, which warrants special assistance. Still others would argue that dislocated workers, if unaided, could use legislative efforts to hinder economic changes that could benefit society in the long run. Relaxed international trade restrictions is one example of the kind of policy change that hard-pressed jobless workers might seek to impede.

CURRENT UNEMPLOYMENT PROGRAMS AND DISLOCATED WORKERS

The federal government currently operates an array of programs for unemployed people. Although current programs offer the variety of services that dislocated workers may need--placement help, job training, relocation aid, and cash assistance--because of funding restrictions and gaps in coverage, present efforts are available to only a portion of all dislocated workers. Together, these programs could not be considered to constitute a comprehensive dislocation policy.

The Employment Service. Staffing limitations at the Employment Service (ES)--a federal-state system providing job-search assistance through 2,600 regional offices--restrict the quantity of personal services that can be provided to dislocated workers. Furthermore, the ES has had problems building listings for the types of jobs that might be suitable for the experienced workers who predominate among the dislocated.

CETA. Assistance under the Comprehensive Employment and Training Act (CETA)--the major program for providing job training--has generally not been used by dislocated workers. This programs is targeted toward low-income, disadvantaged applicants and, in addition, many dislocated workers are reluctant to seek aid through it.

Unemployment Insurance. Most experienced workers who lose their jobs are eligible for income replacement benefits under the Unemployment Insurance (UI) system. In many instances, however, UI benefits--which are generally available for 26 weeks--will be exhausted before dislocated workers acquire new positions. Furthermore, dislocated workers are likely to have smaller proportions of their earnings replaced by UI than are other unemployed workers.

Special Assistance Programs. Some workers also receive aid under a number of special assistance programs. Trade Adjustment Assistance (TAA)--the largest of these programs--is restricted to workers whose unemployment results from import competition, however. Also, TAA has served more as an income maintenance than an adjustment assistance program in the past, because few TAA recipients participated in available employment services.

OPTIONS FOR PROVIDING ADJUSTMENT ASSISTANCE

If the Congress chooses to change the current system of assistance for dislocated workers, among the specific issues to be resolved will be:

- What individuals should be eligible for aid; and
- What types of readjustment services and income replacement to provide.

Determining Eligibility

Eligibility for adjustment assistance--and thus the scope of any program--could be defined in terms of any of several traits of dislocated workers, including:

- Displacement in a declining industry,
- Displacement in a declining occupation,
- Residence in a declining geographic area,
- Length of previous job tenure,
- Age at the time of severance, and
- Duration of joblessness.

Each of the criteria cited about could be applied by itself or used in tandem with another. Applying single criteria would generally define larger eligible populations and would include many unemployed persons who could probably readjust with little aid. Applying multiple criteria would follow the practice used in many other benefit programs to target aid narrowly, but would carry a greater risk of excluding persons equally in need of assistance. In either case, granting aid on the basis of these criteria would entail establishing arbitrary thresholds--say, tenure at ten years, age at 45 years, and duration of unemployment at 26 weeks. Although difficult to set because of the people they would automatically exclude, such thresholds, have precedents in many major federal benefit programs.

An alternative approach would be to make eligibility contingent on a worker's having been part of a mass layoff or plant closing. This would avoid some of the problems associated with the other criteria, but it could also present some difficulties.

Single Criteria. If all workers from declining industries were granted eligibility, the Congressional Budget Office estimates that 880,000 workers could be eligible in 1983. Nearly half would be from four major industries--automobiles, fabricated metals, primary metals, and wearing apparel--and more than 60 percent would reside in the Northeast and Midwest. Extending eligibility to other unemployed workers in declining areas would bring the eligible population to 1.8 million. Many of these additional workers would be from the service, retail, wholesale, and construction industries--some of which may be affected more adversely by cyclical than by structural economic change. If, instead, aid were directed to those unemployed workers from declining occupations, 1.2 million workers would be eligible. Three-quarters of these workers would be semi-skilled operatives and laborers, but only 20 percent would be from declining manufacturing industries.

Alternatively, if aid were granted to all unemployed workers with more than ten years' job tenure, 710,000 would be eligible in 1983. This group would include large numbers of older workers. About 30 percent would be from declining manufacturing industries, and about one-quarter would be white-collar workers. Offering aid instead to persons older than 45 would make 890,000 persons eligible, about 70 percent of whom would have qualified under the job-tenure requirement. Finally, providing assistance to workers who have been jobless for longer than 26 weeks would make 560,000 persons eligible, about one-third of whom would be from the service and retail industries and roughly one-fifth of whom would be white-collar workers.

Multiple Criteria. Applying a different approach, eligibility could be granted to workers who have lost jobs in declining industries and who also

either have more than ten years' job tenure, are older than 45, or have been unemployed for longer than 26 weeks. The multiple-criteria definition using job tenure would tend to focus on older, more experienced workers with little chance of returning to their former jobs. The CBO estimates that 225,000 workers would be eligible under this definition--the majority being semi-skilled blue-collar workers from the automotive, primary metals, textile, and wearing apparel industries. Limiting benefits to workers older than 45 and from declining industries would make 205,000 persons eligible, most of whom would also be eligible under the declining-industry/job-tenure criterion. If benefits were available to workers unemployed for more than 26 weeks from declining industries, approximately 110,000 workers would be eligible, and almost half would be from the automobile industry. Extending eligibility under any of these definitions to include other unemployed workers in declining areas would increase the number of dislocated workers by between 60 percent and 130 percent and would include many workers from the service, retail, wholesale, and construction industries.

Alternatively, a declining-occupation component could replace declining industry in any of the dual criteria discussed above. One effect of using a declining-occupation criterion in combination with the a job-tenure, age, or unemployment requirement would be to exclude most white-collar workers. This approach would, however, include workers in nondeclining industries who have been displaced because structural changes--particularly technological changes--have reduced the demand for their skills. Such definitions would include from 120,000 to 280,000 workers in fiscal year 1983--between 25 and 40 percent of whom would be from declining industries.

Plant Closings or Mass Layoffs. Another approach would be to limit assistance to workers who lose their jobs as a result of plant closings or mass layoffs. This approach would avoid having to establish the arbitrary threshold levels associated with the criteria noted above. On the other hand, targeting aid on persons affected by plant closings or mass layoffs could assist workers likely to be relocated by their present employers and might even create incentives for some employers to close facilities they would otherwise have left open.

Options for Adjustment Assistance

Federal aid for dislocated workers could take two different forms:

- Readjustment services to help workers adapt to changed labor markets, and
- Income assistance.

Readjustment services could include job-search assistance, training, and relocation aid. Although the overall effect of such services is uncertain, they might prove most cost-effective if they were given in sequence from least to most expensive. In other words, if all recipients were required to use relatively low-cost job-search assistance first, more mobile workers would probably find jobs at minimal cost, which would allow services requiring larger outlays--training and relocation--to be limited to workers with the most difficult adjustment problems. Similarly, receipt of cash assistance could be made contingent upon participation in adjustment services. (Specific readjustment service options are described in the accompanying Summary Table.)

Job Search Assistance. Job-search assistance could be provided through the ES either to individuals or to groups of dislocated workers. Both approaches have already been tested to some degree and could be expanded. Individual services could include matching applicants with job listings, counseling, skill testing, and intensive job development (contacting potential employers on applicants' behalf). Stressing self-help, group assistance--or job clubs--could aid workers by teaching job-search skills. Preliminary evidence indicates that both methods are effective at shortening the duration of unemployment, and that each dollar spent on such assistance would likely be more than offset by reductions in federal UI outlays.

If a population delineated by relatively restrictive eligibility criteria were offered individual adjustment services, federal outlays for such aid would total as little as $10 million in 1983. Aiding a population determined by more comprehensive standards could cost $104 million. Expanding the use of job clubs could be somewhat costlier. Depending on the size of the beneficiary population, federal outlays could range from $44 million to $460 million in fiscal year 1983.

Skill Training and Other Education. After an initial period of job-search assistance, workers who remained unemployed could be considered for training in skills that are in demand. Expanding the use of vocational education could concentrate on teaching particular occupational skills. This approach might be useful for dislocated workers who can build on existing skills, but its value could be limited in declining geographic areas, where few skills are in demand. Depending on how many workers were served, fiscal year 1983 outlays for vocational retraining could range from $132 million to $920 million.

Subsidizing on-the-job training in the private sector is another option. Since many dislocated workers have demonstrated their reliability, private employers might be willing to retrain them if helped with some federal

subsidies. Moreover, on-the-job training tends to encourage stable employment. Employers may be reluctant, however, to train older workers even with subsidized wages. Federal outlays to promote on-the-job training could range widely, from $90 million to $650 million in fiscal year 1983.

College-level courses might equip a limited number of dislocated workers with marketable skills at quite moderate costs. Such training might be particularly helpful to younger, more educated workers but of less benefit to older blue-collar workers. Fiscal year 1983 outlays to support such efforts could range from $4 million to $25 million.

Relocation Assistance. Relocation assistance--subsidizing moving expenses--might encourage some workers to relocate to areas with greater demand for their skills. Such aid would probably be most effective if used in conjunction with an expanded program of inter-area job information. The ES now provides inter-area job information through a clearing center in Albany, New York. Information about jobs currently goes to and from Albany by mail; though more costly, a computer link-up would certainly be faster.

If 90 percent of "reasonable" job-search expenses up to $600, plus a moving allowance of up to $600, were available to all dislocated workers (aid now available only to workers with access to TAA), fiscal year 1983 outlays would range from $5 million to $35 million.

Income Replacement. Because dislocated workers may remain unemployed longer than other people and are likely to have relatively low percentages of their earnings replaced by regular UI benefits, the Congress might consider supplementary cash assistance. Specific options include extending the duration of UI benefits and raising UI benefit levels. Extending the length of time that dislocated workers could collect UI benefits from the usual 26 weeks to 52 weeks could increase federal outlays by $132 million to $920 million in fiscal year 1983, depending on what eligiblity criteria were used. In addition, UI payments might be augmented by establishing national minimums for benefits for all dislocated workers. If the income replacement benefits were set equal to 50 percent of dislocated workers' previous weekly earnings or to the average manufacturing wage, whichever was lower, federal outlays would increase by $182 million to $1.3 million in fiscal year 1983. Both approaches might have the possible drawback of discouraging intense job seeking, thereby prolonging joblessness.

A Dual Strategy Linking Cash Benefits to Adjustment Services. Receipt of special income replacement benefits could be linked explicitly to a program participant's use of readjustment services. This would probably reduce the job-search disincentives associated with cash benefits, increase

SUMMARY TABLE I. ADJUSTMENT OPTIONS FOR DISLOCATED WORKERS AND FEDERAL COSTS IN FISCAL YEAR 1983

	Services Offered and Numbers Served[a]	1983 Outlays (In millions)[b]
JOB SEARCH ASSISTANCE		
Expand Employment Services	All would undertake initial application and screening services, 50 percent would receive job development services, and 50 percent would receive counseling	$10 to $104[c]
Expand the Use of Job Clubs	All could be required to use a job club for a set period	$44 to $460
SKILL TRAINING		
Expand Vocational and Technical Training	41,000 to 29,000 would receive vocational training	$132 to $920[d]
Subsidize On-the-Job Training	41,000 to 290,000 would receive on-the-job training	$90 to $650[e]
Subsidize Higher Education	8,300 to 58,000 would use college level-courses	$4 to $25[f]
Combine Above Three Methods	19,000 to 129,000 would undertake vocational training; the same number would receive on-the-job training; 4,100 to 28,700 would use college-level courses	$103 to $717
RELOCATION ASSISTANCE		
Subsidize Moving Expenses	4,125 to 28,750 would have 90 percent of moving expenses paid up to $600 and would receive relocation allowances up to $600	$5 to $35

SOURCE: Congressional Budget Office.

SUMMARY TABLE 1 (Notes).

---

a. The number of dislocated workers is estimated using a moderate-trend economic assumption, yielding a range of 110,000 to 1.2 million.

b. Outlay estimates are assumed to exclude the largest category--declining industries including secondary job losers in declining areas. These can be calculated as roughly twice the upper bound of each range.

c. This estimate uses the following time requirements for providing individual services; one hour for application and screening, three hours for counseling, and five hours for job development services. Furthermore, one staff hour, including overhead, is estimated to cost $17.85 in fiscal year 1983.

d. Vocational training is estimated to cost $3,200 per trainee in fiscal year 1983.

e. This estimate assumes that subsidies equal to 30 percent of trainees' wages are paid for six months. The average weekly wage in fiscal year 1983 is estimated to be $290.

f. This estimate is based on costs of $443 per enrollee in fiscal year 1983--the estimated one-year cost for public, two-year institutions.

---

the use of adjustment services, and aid in targeting the program to workers with the most severe adjustment problems. A potential drawback, however, is that workers who are not likely to benefit from these services might be induced to use them in order to receive cash benefits.

96-340 O - 82 - 3

DISLOCATED WORKERS:
ISSUES AND FEDERAL OPTIONS

CHAPTER I. INTRODUCTION

Of the present U.S. population of unemployed workers--already at a post-War high approaching 10 percent--a portion can be termed "dislocated." These are people who have lost jobs and have remained unemployed for relatively long periods largely as a result of evolving structural changes in the economy. Even with a major improvement in economic conditions[1]--and many forecasters do now see a recovery from the present recession occurring during the remainder of this year--these workers are not likely to regain employment easily, either at their previous jobs or elsewhere.

UNDERLYING ISSUES

As the Congress considers how to assist dislocated workers in adjusting to economic change--if indeed, it considers such assistance appropriate--several fundamental questions are likely to arise:

- What forces--both in the economy at large and in the labor market in particular--are causing dislocation? Do these forces make the problem a short-term one, or should it be expected to persist?
- Who is the dislocated worker? What special factors characterize his employment difficulties?
- How big is the problem?
- Does the federal government have precedents in other programs to look to in considering aid to dislocated workers? and
- Should the federal government take a role, and if so, what form should that role take?

Some of these questions look forward to future events and developments, making analytical consideration difficult; they are discussed briefly here

1. For example, see Congressional Budget Office, Prospects for Economic Recovery, A Report to the Senate and House Committees on the Budget, Part I (February 1982).

merely to suggest the complexity of the issues that dislocation poses for the Congress. The scope of the analysis in this paper is confined to currently displaced workers and the likely situation in 1983.

The Nature of the Problem

Is the dislocation problem developing today a transient one, or can it be expected to persist and worsen? To whatever extent the situation results from fundamental shifts in the economy rather than from short-term events, the situation must be regarded as a long-term one. Several of the factors contributing to high unemployment are probably temporary: changes in consumers' buying choices, government policies and market responses, and the recession itself. Other factors are likely to bring about lasting effects--notably geographic reorganization of production both within the United States and among nations, and technological developments, which may affect large sectors of the economy. These latter factors are likely to change the economy in fundamental ways. Thus economic forces of two basically different kinds--cyclical and structural--appear to be converging on certain segments of the workforce. In the short run, this convergence is displacing many people from jobs they are trained and accustomed to perform. In the longer term, it is severely limiting their opportunity for future employment without adjustment to a new economic order.

Defining the Problem

Who is the dislocated worker? For the purposes of designing and administering governmental programs, the definition of dislocation must take the precise form of eligibility criteria; these can determine the characteristics and numbers of possible participants. The range of forms such criteria might take is wide. For the more general purpose of establishing a framework for considering the nature of the dislocation problem, a less exact definition can suffice.

A dislocated worker, in general terms, is someone who has lost work through no fault of his own. In most instances, the job itself has ceased to exist--because of a plant shut-down, for instance, or a retooling with technologically new, labor-saving equipment--and for any of a number of reasons, none is likely to become readily available. Despite often substantial employment records and a demonstrated willingness to work, many dislocated workers might remain jobless for periods long enough to lead to personal hardship. Because of the types of changes occurring in the economy, many such workers are likely to have been displaced from

jobs in declining occupations or industries and to reside in geographic areas that are undergoing demographic and economic decline.

The Size of the Problem

How large a share of the unemployed population should be regarded as dislocated? From a legislator's standpoint, the size of the dislocation problem is a function of how one defines the problem. Taking a narrow definition of dislocation that includes only those people who have lost jobs in an industry that is declining and who have remained jobless for at least six months as of the beginning of 1983, when the forecast recovery is expected to be under way, roughly 100,000 to 150,000 people (or 1 percent of the unemployed) would be classified as dislocated. Using a less restrictive interpretation including all displaced workers in industries and geographic areas that are undergoing economic decline, the number of dislocated workers as of that date would include some 1.7 to 2.1 million people (the higher number being equal to roughly 20 percent of the unemployed). This wide disparity underscores the difficulty the Congress would face in determining who among the unemployed would warrant whatever assistance the federal government offered to dislocated workers.

The Federal Role

What role--if any--can the federal government take? Traditionally, the federal government has made available to various portions of the jobless workforce various forms of aid under a number of programs. As manifested in the diverse approaches and objectives embodied in these past and current federal programs, the term adjustment can imply several meanings. Perhaps the most obvious is income assistance--cash for qualifying unemployed workers to aid them financially while they are between jobs. Another form of adjustment aid has been skill training. Taking a different role, the federal government has also served as a clearinghouse for job seekers and employers with vacancies. It has also elected to offer aid of various kinds to unemployed workers whose situation it deemed to be the direct result of federal policies.

Do these diverse adjustment undertakings--either one by one or in some combination--offer reasonable models for fashioning an adjustment policy for dislocated workers? Indeed, can these programs themselves adequately meet the needs of dislocated workers? And at the same time, with the federal budget now under tight pressure, what adjustment assistance can--or should--the federal government afford to undertake? These questions must underlie evaluations of the federal government's past

and current adjustment efforts and deliberations about what course any future efforts might appropriately take.

PLAN OF THE PAPER

In order to assist the Congress in assessing the dislocation problem and what possible actions may be warranted, Chapter II examines the underlying causes of dislocation and the divergent trends visible in different sectors of the economy. To provide a context for considering the needs federal measures might meet, the chapter also characterizes the situation facing dislocated workers. Chapter III contrasts various estimates of the magnitude of the dislocation problem and reviews an array of federal employment assistance programs with regard to their applicability to the current and anticipated dislocated workforce. Chapter IV illustrates how different programmatic definitions of dislocation affect the dimensions of a program and the people it would reach. The final chapter examines various approaches and program options for designing policies to address the dislocation and adjustment issues.

CHAPTER II. THE CAUSES OF DISLOCATION AND IMPEDIMENTS TO ADJUSTMENT

A restructuring of the U.S. economy, such as is often necessary for economic growth and productivity, is now underway. As it proceeds through the remainder of this decade, this fundamental shift is likely to displace many workers from their jobs. Some will find new employment relatively easily; others will not. These latter people--the dislocated--are already facing serious difficulties in securing new employment, in many instances because jobs with earnings and fringe benefits comparable to those lost simply do not exist, and in other instances because displaced workers cannot or wish not to relocate in other areas to accept whatever jobs may be available. This chapter examines causes leading to workers' involuntary severance and factors that impede adjustment; it also reviews employment characteristics that distinguish many dislocated workers and contribute to adjustment difficulties.

THE CHANGING STRUCTURE OF THE ECONOMY AND THE CAUSES OF DISLOCATION

Two factors, both already beginning to affect the U.S. labor force, are likely to contribute to a substantial displacement of labor in the 1980s and beyond:

- o Continued lagging or actually declining growth rates in some industries, and
- o Modernization of production through labor-saving technologies.

The former has already displaced many workers; in the longer term, the latter could lead to further labor displacement, possibly giving rise to larger-scale joblessness than has occured at any time in the past. Both of these factors are likely to have disproportionate effects on workers in such traditional manufacturing industries as automobiles, rubber, steel, textiles, and wearing apparel in the near future. By the turn of the next century, however, the rapid diffusion of microelectronic technology could influence employment levels throughout the entire manufacturing sector and beyond.

96-340 O - 82 - 4

Economic Trends in Different Sectors

In recent years, major economic sectors have been performing in markedly different ways, leading to a significant restructuring of the economy. While traditional manufacturing industries--which together employed nearly one-third of all manufacturing workers (about 6 million workers) in 1979--have grown slowly or actually declined, the energy, high technology, and service sectors have expanded rapidly. This divergence is likely to continue at least through this decade, contributing to permanent involuntary displacement of workers.

Although some manufacturing industries now declining may eventually recover and expand employment somewhat, this process is likely to be slow. Antiquated plants and equipment and stiff foreign competition have combined to restrict the growth of employment in traditional manufacturing to rates well below the employment growth in the economy as a whole. The past and projected employment performance of major components of the U.S. economy, as estimated by the Bureau of Labor Statistics (BLS), is displayed on Table 1. In addition, employment levels in these traditional manufacturing industries have fallen by 650,000 (nearly 11 percent) since 1979.[1] Although the BLS projections show some employment growth for these industries through 1990, the rate will not be nearly enough to avoid permanent displacement of currently unemployed workers.

In contrast to traditional manufacturing, the employment in energy and related industries has expanded rapidly and is expected to continue to do so. The world energy shortage and rapidly rising prices have substantially increased exploration and extraction activites for oil, natural gas, and coal. Although prices and profits may not rise so rapidly in the 1980s as in the previous decade, employment levels in these industries will likely continue to expand at above average rates due to the rapdily declining productivity of domestic energy resources. Extraction of a given amount of energy will likely require increasing inputs of both labor and machines--leading to increased employment not only in extraction activities but in related machinery industries as well.

The boom already recorded in high technology industries is also likely to be sustained through this decade. The substantial international advantage the United States holds in microelectronic technology has expanded opportunities for such industries as computers, communications, and biotechnology. Despite mounting competition from overseas, notably from Japan,

---

1. The number of displaced workers is likely to be somewhat less than the decrease in employment, since some reduction will occur because of normal attrition--that is, voluntary resignations and retirement.

TABLE 1. ACTUAL AND PROJECTED ANNUAL GROWTH RATES FOR EMPLOYMENT IN PARTICULAR INDUSTRIES (In percents)

Sectors and Industries	Annual Growth Rates 1969-1979	1979-1990 High Trend	1979-1990 Low Trend
Total Employment	1.9	2.1	1.4
Traditional Manufacturing			
Motor vehicles	0.9	0.5	-0.7
Textiles	-1.2	0.6	0.2
Rubber[a]	0.3	0.6	0.5
Iron and Steel[b]	-0.7	0.8	0.6
Energy Related			
Crude petroleum and natural gas extraction	3.0	4.0	3.6
Coal mining	6.7	5.4	4.1
Construction, mining, and oilfield machinery	3.4	4.8	2.4
Electronic Technology			
Computers and peripheral equipment	4.6	5.2	4.2
Electronic Components	2.9	2.2	2.2
Services			
Miscellaneous business services	6.4	3.8	2.9
Health services[c]	5.2	4.8	4.1
Professional services	5.1	3.1	2.2
Finance, insurance, and real estate	3.6	2.8	2.2

SOURCE: Valerie A. Personick, "The Outlook for Industry Output and Employment Through 1990," Monthly Labor Review, U.S. Department of Labor, Bureau of Labor Statistics (August 1981).

NOTE: The projected low trend assumes a decline in the expansion rate of the labor force, continued high inflation, moderate gains in productivity, and modest increases in real output and employment. The high trend assumes a larger labor force, higher production and productivity, and lower unemployment rates.

a. Includes tires and innertubes and miscellaneous rubber and plastics products industries.
b. Includes blast furnaces, basic iron and steel, and steel foundries and forgings industries.
c. Includes doctors' and dentists' services, hospitals, and other health-service industries.

new advances and innovations, as well as strong demand for cost-saving technologies from the rest of the U.S. economy, are likely to assure continued above-average employment growth rates in high technology industries. Overall, employment in the computer and peripheral equipment industries is projected to grow at more than twice the national average rate through 1990.

Similarly, the service sector, particularly business and health services, is likely to continue to grow more rapidly than the economy as a whole. Although productivity increases stemming from technological breakthroughs such as microprocessors may be accompanied by slow or reduced employment expansion in some services, demands for business services by manufacturing industries should maintain strong employment growth. Job opportunities in these areas may also be increased by overseas demand for financial, telecommunications, and data processing services. The nation's strong demand for medical care and the overall aging of the U.S. population should also assure continued rapid employment growth in health services.

Changes in Employment Demand. Following from the divergent growth trends in different economic sectors, the demand for labor is changing character. In the industries that are thriving and likeliest to grow, employment should expand accordingly, especially for workers with special skills or professional training. Engineers and computer personnel, for example, as well as other white-collar workers, should enjoy ample opportunities for work. In fact, some of these stronger industries have begun to experience shortages of the highly trained personnel they need, and these shortages may grow.

At the same time, however, workers from traditional manufacturing industries--usually blue-collar workers--already predominate among the displaced, and most do not have the skills to fill jobs available in the growth industries. In short, a mismatch may be developing between the demand for work and the supply of jobs.

A coincident geographic shift is likely to compound the adjustment difficulties of displaced blue-collar workers. Certain regions--particularly some southern and western states in the Sunbelt--are experiencing growth in population, income, and employment. These locales are the main beneficiaries of such boom industries as energy and electronics. At the same time, the Frostbelt states of the Northeast and Midwest are those most severely affected by slow growth or declines in traditional manufacturing. Thus, many workers displaced from jobs in traditional manufacturing find themselves not only under-skilled for other jobs but also separated by appreciable distances from those jobs and whatever training private-sector employers might make available. Efforts to aid displaced workers in adjusting to these changed demands for their services--if indeed the Congress should

choose to make such efforts--may have to take account of these various and difficult impediments.

Modernization of Plants and Equipment

The modernization of several basic manufacturing industries, mainly through technology that requires a reduced labor input, will likely further contribute to worker displacement in the 1980s. Automotive, rubber, and steel manufacturers have already closed numerous antiquated plants and have begun investing heavily in new, technologically efficient ones. Other industries have initiated modernization programs within existing plants. Although these modernization efforts may ultimately lead to some new employment opportunities in these industries, large numbers of workers will probably still be displaced, because much of the new plant and equipment will require less labor for production. For example, some analysts have estimated that automation could eliminate 200,000 manufacturing jobs in the automobile industry by 1985.[2] Similarly, the Congressional Budget Office estimates that productivity improvements will reduce the workforce of integrated steel producers by 2 or 3 percent each year through 1990.[3]

Eventually, however, the introduction of microelectronic technology into the production process could affect the entire manufacturing sector--potentially reducing employment to a much greater degree than has occured in past periods of technological change. Recent studies estimate that industrial robots could eliminate one to three million jobs in the near future and possibly up to seven million by the year 2000.[4] Although the degree of actual dislocation will be somewhat less than the number of jobs lost due to natural attrition and industrial retraining efforts, dislocation is likely to be substantially larger than in the previous period of rapid technological change

---

2. See, for example, Michael C. Barth, "Dislocated Workers," The Journal of the Institute for Socioeconomic Studies, vol. VII (Spring 1982), pp. 23-35.

3. From Statement of Raymond C. Scheppach, Deputy Director, Congressional Budget Office, before the Subcommittee on Oversight and Investigations of the House Committee on Energy and Commerce, March 22, 1982.

4. See Robert U. Ayers and Steven Miller, "Robotics, CAM, and Industrial Productivity," National Productivity Review, vol. I (Winter 1981-1982), pp. 42-60 and Preparing for the Growth of Industrial Robots, Policy Paper 3; Robot Institute of America, 1981.

begun in the late 1950s. Large-scale unemployment did not occur in that period despite automation and computerization because of rapid overall economic growth during the 1960s, and because the diffusion of these technologies was slow. Existing microelectronic technology, on the other hand, has the potential to diffuse very quickly through major portions of the economy and to affect employment growth in such other sectors as services--diminishing their ability to absort displaced workers.

IMPEDIMENTS TO ADJUSTMENT--CHARACTERISTICS OF DISLOCATION

If the current high unemployment rate were primarily a result of cyclical changes in the economy, the adjustment outlook of all displaced workers would be generally similar. Unemployment could be viewed as a transitory problem, and workers' prospects of eventually returning to jobs--either to restored old jobs or to comparable new ones--would be realistic. With strutural economic shifts developing, however, such prospects appear remote, especially for certain segments of the displaced labor force.

In a thriving economy or when no major change is occurring, workers with long service records enjoy many advantages. Even as circumstances begin to deteriorate or simply to shift, longer-tenured workers tend to be better protected against the threat of layoff. Most employers, either compelled by union contract provisions or merely following custom, begin to reduce their workforces on a last-in-first-out basis, dismissing most recent hirees first.[6] If conditions decline appreciably, however, personnel reductions gradually begin to affect more senior workers. Finally, when operations begin to shut down or plants become converted to new technologies, larger numbers of workers, regardless of length of service, become unemployed.

---

6. A BLS survey found that 79 percent of major collective bargaining agreements had seniority as the sole or primary determinant of layoffs. See U.S. Department of Labor, Bureau of Labor Statistics, Layoff Recall and Worksharing Provisions, Bulletin 1425-13 (1972). Furthermore, a recent employer survey of firms found substantial seniority protection from layoff for nonunion workers. See James Medoff and Katherine Abraham, Involuntary Terminations Under Explicit and Implicit Contracts, National Bureau of Economics Research, no. 534 (February 1981). For evidence on promotion arrangements by seniority, see U.S. Department of Labor, Bureau of Labor Statistics, Major Collective Bargaining Agreements: Seniority, Promotion, and Transfer Provisions, Bulletin 1425-11.

Thus, workers most adversely affected by structural economic changes tend to be those at the older end of the age spectrum of the labor force; many are semi-skilled blue-collar workers. A number of specific factors combine to make adjustment difficult for those workers, including non-transferability of experience, seniority-related wages and benefits, lack of information concerning the labor market, and reluctance to relocate in areas where employment opportunities exist. In addition, many employers tend to be reluctant to hire older workers.

Transferability of Experience

Workers with firm-specific skills and appreciable job tenure generally suffer the greatest earnings losses if they must seek new employment. These workers' skills may not be highly valued by other possible employers; part of their prior wages often represented returns on previous employers investments in firm-specific training. When such workers do secure alternative employment, it may, therefore, be at appreciably lower wages.

By contrast, displaced workers with more general training and those with less job experience should be able to adjust more quickly and with smaller losses in earnings. Workers with more years of schooling should experience fewer adjustment problems, too: education tends to serve as a form of general skill training. Younger workers who have completed on-the-job training programs may also find jobs more easily (even if their training was firm-specific), because prospective employers are likely to view them as having earned credentials. Completed training programs, much like formal education credits, can be used by potential employers to screen for candidates perceived to have advantageous job qualities. In addition, shorter-tenured workers are generally on the low portions of their age-earnings profiles, so they should have less trouble finding jobs with comparable wages. Finally, younger workers, being less likely to have become committed to a particular industry or community, tend to be better able to move to where there are employment opportunities.

Seniority-Related Benefits

Many assets associated with long-term employment translate, upon a worker's involuntary severance, into losses. Primary among these factors, of course, is pay, which tends to rise with length of tenure. Escalations in status--that is, promotions in rank--often accompany and compound the rises in income associated with length of service. Secondary, or fringe, benefits have significant value as well. For example, most employers make retirement pensions available only to personnel who have been in their

employ for a certain number of years; a common such "vesting period" is ten years. Since pensions are commonly computed on the basis of a worker's last or highest earnings (whichever is higher), longer tenure as a vested employee usually is reflected in higher retirement pay. Thus, a job loss can represent a loss in future income as well as current compensation, comprising both wages and other fringe benefits, such as health and life insurance coverage. Being in many instances based on pay, life insurance may also increase in value over time. Furthermore, other peripheral advantages that increase with length of service can also be lost with severance. These may include profit sharing, which tends to increase in value with time and like a pension, may figure into a worker's long-range plans, and the amount of paid vacation granted. Many firms offer additional paid leave time to longer-tenured workers.

Other seniority-related benefits that enhance job security and advancement opportunities also contribute to the reluctance of older workers to seek and accept alternative employment. Besides layoff protection, which is often accorded on the basis of seniority, many firms base promotion on years of service. Both factors increase the losses suffered by senior workers upon job loss.

Lack of Labor Market Information

The amount of information individuals have on the availability of alternative jobs can also affect adjustment. Many dislocated workers have only limited job-market information and must, therefore, invest considerable time and money to increase their knowledge of potential jobs.

Inadequate job-market information can be a particular problem for unskilled and semi-skilled blue-collar workers and for some white-collar employees as well. In contrast to many higher-skilled, white-collar workers and professionals, many of whom have constant exposure to the employment market as a by-product of performing their jobs, less-skilled workers generally get little of this kind of exposure. Indeed, the institutional structures of the labor market tend to insulate these workers from information about alternative work opportunities. Moreover, the job-search skills of workers who have been employed for some time are likely to have eroded. Both of these factors can contribute to a difficult and long transition process.

Insufficient information about alternative employment opportunities may also lead to unrealistic job aspirations, thereby extending the period of unemployment, particularly for displaced workers with substantial job tenure. Initial job aspirations may be for a compensation package similar to

that received before layoff.[7] Middle-aged workers with lengthy job tenure and firm-specific skills may adjust only slowly to the fact that their earning power may be substantially diminished, thereby extending their periods of unemployment. Shorter-tenured workers, in contrast, are less likely to have unrealistic job aspirations.

Reluctance to Relocate

Reluctance to relocate geographically may also impede adjustment for displaced workers. Both financial and nonfinancial factors may make older workers especially unwilling to relocate. For one thing, older persons are more likely to own their homes and, therefore, potentially to incur selling costs. Similarly, community ties may be stronger for older workers who are also more likely to have working spouses, children in school; or many have older children living in the same area. The interplay of all these factors can be seen in the higher mobility rates of younger persons.[8] Evidence suggests that older workers are less likely to move when laid off.[9] In a sample of young men aged 19 to 29, 26 percent of workers who were laid off migrated. In a sample of men aged 45 to 59, however, only 7 percent of those who were laid off migrated.

These factors are also more likely to inhibit relocation by blue-collar workers than by those in higher-level occupations.[10] As mentioned above,

---

7. For a review of the aspiration-level hypothesis of job search see, see Edward Kalachek, Labor Markets and Unemployment (1973), pp. 58-59.

8. From 1975 and 1979, between 12 and 16 percent of all persons between ages 20 and 35 moved to a different state compared to less than 10 percent of all persons over 35. See Bureau of the Census, Geographical Mobility: March 1975 to March 1979, Current Population Reports, Series P-20, no. 353.

9. See Ann P. Bartel, "The Migration Decision: What Role Does Job Mobility Play," American Economic Review, vol. 69 (December 1979), pp. 775-786.

10. Differences in mobility by occupation are reflected in the fact that 9 to 12 percent of professional, managerial, technical, and sales workers relocated to different Standard Metropolitan Statistical Areas between March 1975 and March 1979, while about 5 to 6 percent of operatives, clerical workers, craft workers, and laborers relocated during the same period.

professional and managerial workers generally have better access to the labor market than blue-collar workers and indeed, are likely to move in order to take employment that is waiting for them.[11] Furthermore, new employers are more likely to help pay moving expenses for managerial and professional personnel than for blue-collar employees.

Employers' Hiring Behavior

Employers' attitudes toward older workers may also make it difficult for such persons to locate alternative employment if they become displaced. Although older workers have generally established steady and consistent work records and have made fewer job changes, employers are reluctant to hire them.[12] Older workers are often seen as less productive, more difficult to train, and as poor investments, because they do not offer the potential longevity of younger workers. Finally, employers may be discouraged from hiring older workers because health; insurance coverage for older workers can cost more.

THE ADJUSTMENT EXPERIENCE OF DISLOCATED WORKERS: PAST EVIDENCE

In the past, dislocated workers have faced serious problems in becoming reemployed. In one study of plant closings in the meat packing industry, it was found that among five cities sampled, the proportion of workers who were reemployed one year after layoff ranged from 33 to 76 percent--depending on the condition of the local economy. On average, wages upon reemployment were 17 percent lower than wages at the previous job.[13]

A survey of workers unemployed in the 1968-1973 period provides more evidence that the experience of dislocated workers has indeed differed from that of other unemployed workers. The survey compared workers laid off from plants certified for Trade Adjustment Assistance (TAA--discussed

---

11. See S. Saben, "Geographical Mobility and Employment Status," Monthly Labor Review, August 1964.

12. For further discussion, see CBO, Work and Retirement: Options for Continued Employment of Older Workers (July 1982).

13. See R.C. Wilcock and W.H. Franke, Unwanted Workers: Permanent Layoffs and Long-Term Unemployment, The Free Press of Glencoe (1963), pp. 143-144.

in Chapter III)--three-quarters of which had shut down--with workers receiving Unemployment Insurance (UI) in the same labor-market areas. On average, workers from the TAA plants were seven years older and had 12 or more years more job tenure than those receiving UI. Furthermore, 15 percent of TAA workers were considered skilled, as compared to 30 percent of UI workers. The TAA workers who were laid off in 1968-1973 and who had become reemployed as of the survey date in August 1975 (about 71 percent) had spent an average of nearly nine months unemployed. Moreover, their hourly wages at reemployment were 33 percent lower than the wages received at the former jobs. Finally, in a survey of Ford Motor Company employees who lost jobs because of one plant shutdown in 1980, more than one-half were still jobless 18 months after layoff.[14]

Moreover, most surveys of dislocated workers clearly link adjustment problems to age, skill level, and education. One of the most persistent findings is that older workers remain unemployed for longer periods than do their younger counterparts. In the survey of meat packing plants, the proportion of workers over age 55 who were jobless for an entire year was nearly double the proportion of workers under 35 who were jobless for a comparable time.[15] Evidence from another study implied that each ten years of age added one and a half months to the period of joblessness, so that on average, a 55-year-old would be unemployed for four and a half months longer than a 25-year-old under the same conditions.[16] In addition, skilled workers have been found to average three and a half to six months less of unemployment following a plant closing than either semi-skilled or unskilled workers. Furthermore, workers with more education have been found to have lower unemployment rates following plant closings, particularly those workers with at least a high school diploma.[17]

Finally, the CBO estimates that wage loss for dislocated workers is inversely proportional to seniority in previous jobs. It found that from

---

14. Reported in the Wall Street Journal (June 24, 1982).

15. See Wilcock and Franke, "Unwanted Workers," pp. 55.

16. See W. Dorsey, "The Mack Case: A Study in Unemployment," in O. Eckstein, ed., Studies in the Economics of Income Maintenance, Brookings Institution (1967), pp. 175-248.

17. See Jeane Prial Gordus, Paul Jarley, and Louis A. Ferman, Plant Closings and Economic Dislocation, the W. E. Upjohn Institute for Employment Research, 1981.

two to six years after initial severance, workers with less than ten years' job tenure were earning 91 percent of the wages they would have earned if displacement had not occured; workers with 10 to 20 years' and 20 years' or more job tenure were earning 81 and 75 percent, respectively, of their previous wages.

CHAPTER III. VIEWS ON ADJUSTMENT AID, THE SIZE OF THE DISLOCATION PROBLEM, AND CURRENT ASSISTANCE PROGRAMS

In considering federal assistance to dislocated workers, the Congress faces fundamental questions about equity and the appropriateness of governmental intervention in what appears to be a private-market problem. Opponents of adjustment assistance contend that natural market forces will assure an efficient adjustment process without government intervention. Proponents, on the other hand, argue that dislocated workers face special difficulties in adjusting to job loss that warrant federal assistance. In another view, dislocated workers are seen as having the potential to raise political obstacles to economic efficiency. The legislative choice among these positions is as much a philosophical one as an analytical one, and it is therefore cited only in passing in this paper.

Spokesmen for the free market view would argue that dislocation is a transient phenomenon that will, in time, correct itself: as the economy recovers from recession, it will eventually provide new places for workers who are now jobless. Though the economic change now evolving may be permanent, the dislocation of workers may be a regretable but temporary by-product. Moreover, people who have worked in the industries and locales now most affected by unemployment have already been well compensated with relatively high earnings and generous peripheral benefits. In fact, special treatment from the federal government could be seen as counterproductive: by easing the pressures of unemployment, federal aid could discourage intense job-seeking efforts and could thus slow the process of adjusting to structural changes in the economy.

To counter such arguments, proponents of federal aid to dislocated workers maintain that adjustment assistance is necessary to overcome barriers to labor-market mobility that make finding new jobs especially difficult for dislocated workers. As discussed in Chapter II, firm-specific skills, the liability that seniority becomes upon severence, poor information about the range of job opportunities, and employers' hiring behavior all can inhibit the adjustment of dislocated workers. Proponents of this view also contend that poor access to funding for training and job-search activities would further limit the potential for successful adjustment. Because of these barriers, dislocated workers will spend a longer time searching for jobs and possibly find less productive work than if they had access to federal adjustment assistance.

96-340 O - 82 - 5

In addition, proponents of special assistance argue that dislocated workers suffer unique problems. They may be distinct from the rest of the unemployed population by virtue of having been part of a mass layoff, their long employment histories, the length of their tenures in former jobs, and their ages. Moreover, their job-search skills have likely eroded and many will be seeking work in depressed labor markets where normal job-search techniques prove ineffective. Furthermore, so long as dislocated workers remain unemployed and their financial circumstances deteriorate, they have the potential to create a drain on other sources of government aid.

In another view, adjustment aid from the federal government is seen as a necessary though not optimal price to pay for economic change and revitalization. Such change inevitably confers both immediate and future gains on some people and exacts costs from others. As much for the sake of the economy as a whole as for the losers themselves, dislocated workers are thought to need special help. If they are not eased through a transition, they might succeed in blocking legislative changes that could, in the longer term, benefit much larger portions of society. For example, sentiment might be created to slow the shutting down of outmoded plants or to raise trade barriers.

For many policymakers except those who would refrain entirely from interfering with natural private-market forces, some numerical estimates of the magnitude of the dislocation problem are essential to considering possible measures. In addition, a review of the various existing programs that represent the federal government's tested approaches to unemployment can also be useful.

ESTIMATING THE SCOPE OF THE PROBLEM

Because many unpredictable variables--most significantly, the performance of the economy itself--enter into any estimates of the size of the dislocation problem, only very short-term projections can be considered reasonably reliable. For this reason, the Congressional Budget Office has estimated the size of the dislocated workforce as of early 1983, when recovery from the current recession is forecast to be well under way. The CBO has tabulated estimates reflecting different assumptions concerning the pattern of economic growth. Besides economic performance, other variables are computed into the CBO estimates, reflecting the diversity of traits that can be used to define a displaced worker as dislocated (see also Chapter IV). These include the fact of workers having been laid off in a declining occupation, industry, or geographic area; workers' age and length of tenure before severance; and duration of unemployment.

In general, the number of dislocated workers appears markedly smaller if one bases the definition of dislocation on more than one criterion. For example, if the problem is identified as encompassing those people who have lost jobs from declining occupations and who have remained jobless for 26 weeks (an appreciably shorter time than the average jobless period for persons displaced by plant closings), then the number may be as low as 105,000 in early 1983. If, however, one defines dislocation simply to include all workers from declining industries in declining areas, regardless of duration of unemployment or other possible factors, the number approaches 2.2 million.[1] As stated in Chapter I, the latter figure represents some 20 percent of all unemployed persons projected for January 1983.[2] The disparity between these two estimates highlights the difficulties the Congress would face in determining who would qualify for whatever special adjustment aid the federal government made available to dislocated workers. How these questions of definition would translate into eligibility criteria for possible federal programs is examined in greater detail in the next chapter.

CURRENT PROGRAMS THAT AID THE UNEMPLOYED

Though no existing federal programs are targeted specifically toward dislocated workers per se, a number of programs offer aid of various kinds to unemployed persons in general. Three in particular are the focus of the following sections: the Employment Service, the Comprehensive Employment and Training Act, and Unemployment Insurance. These efforts offer employment referral and counseling services, job training, and income assistance. In addition, some programs extend aid to specific subgroups of unemployed workers. None of these efforts, however, is especially well suited to meeting the needs of today's dislocated workers; program guidelines, gaps in coverage, and budgetary constraints most recently manifested in funding reductions or program terminations all limit these programs' effectiveness in aiding dislocated workers.

---

1. A declining area is defined simply as one in which employment diminished in absolute terms over the 1978-1980 period. See Marc Bendick and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Do They Need Federal Employment and Training Assistance?" National Commission for Employment Policy, Seventh Annual Report (1982), pp. 177-219.

2. See CBO, Prospects for Economic Recovery.

The Employment Service

Established during the Depression, the Employment Service (ES) serves as a nationwide clearinghouse to match the skills of job seekers with the needs of prospective employers and is funded by federal grants to states.[3] The functions of the ES have greatly broadened over the decades, and the service is now involved in the administration and enforcement of various laws and Executive Orders. The ES now performs specific duties for many federal agencies operating assistance programs.[4] For example, it administers the work test that, in part, determines eligibility for the Department of Health and Human Services' Aid to Families with Dependent Children (AFDC) and the Department of Agriculture's Food Stamp programs. It serves a similar function for the Department of Labor's Unemployment Insurance program and for the Veterans Administration assistance program for Vietnam veterans. As discussed below, the ES also offers services to workers eligible for Trade Adjustment Assistance.

Responsibility for the ES's labor exchange activities is shared by the federal government and the states. The federal government assists in setting up and maintaining the system of employment offices and is responsible for establishing procedures, standards, and guidelines. Actual operation of ES offices--in 2,600 localities throughout the country--is the responsibility of state governments.

The ES can potentially provide a number of services to job seekers. Depending on a worker's skills and on job-market conditions, a local ES office might engage in any of the following activities:

- Interviewing job seekers to determine skills and interests,
- Matching job applications with existing job openings and making referrals,
- Counseling persons with difficulty in finding jobs and those who must or wish to change occupations,
- Testing applicants to determine skill levels and potential,

---

3. The Employment Service was established in 1933 under the Wagner-Peyser Act.

4. See Congressional Budget Office, Improving Youth Employment Prospects (February 1981).

- Contacting employers on behalf of applicants to promote job matching, and

- Referring applicants to job training facilities if deemed necessary.

Constraints on the ES. In recent years, however, ES staff have found job development and placement activities constrained by fixed resources and growing numbers of responsibilities. Despite the expansion of responsibilities and a large increase in the labor force during the 1966-1981 period, ES positions funded under the Wagner-Peyser Act remained constant at 30,000.

Recent funding reductions would further limit the ES's effectiveness in aiding dislocated workers. Grants to states for provision of employment services were already reduced from $799 million in fiscal year 1981 to $735 million in fiscal year 1982; these monies will support 24,800 positions, a reduction of 5,200 from 1981. The Administration's proposed fiscal year 1983 funding of $740 million would further reduce staffing to 21,800 positions. At present, about 7 percent of all applicants receive counseling, 3 percent skill testing, and 2 percent training referrals; 13 percent receive job development services, and 20 to 25 percent would eventually be placed in jobs. The reduced staffing would probably cause a sharp decline in the quantity of these services provided by the ES--which many critics already regard as too low for dislocated workers.

The effectiveness of the ES in aiding experienced workers is also limited by a current inability to build up employment listings--particularly for well-paying jobs. Firms and other private-sector employers rarely have need to recruit through the ES; most follow personnel policies that assure a continuous queue of qualified applicants. In addition, many employers are reluctant to list openings with the ES: the service has acquired a reputation for dealing largely with economically disadvantaged job seekers with low levels of skills. A Department of Labor survey reported that only one-fourth of all employers, representing 36 percent of all job vacancies, listed their openings with the ES.[5] Finally, the same reputation might dissuade dislocated workers with solid employment histories from using the ES to aid in job searching.

---

5. See U.S. Department of Labor, Recruitment, Job Search, and the United States Employment Service, Employment and Training Administration, Research and Development Monograph No. 43 (1976).

The Comprehensive Employment and Training Act

Most federal employment and training activities are funded through the Comprehensive Employment and Training Act (CETA), which was enacted in December 1973. Through CETA, federal funds go to state and local governments that choose whom to serve and how to serve them within the context of the federal statute and related regulations.[6] For 1982, CETA funds are divided among four training programs with different objectives:

- Comprehensive training services under Title II-B and C;
- Special national programs under Title III;
- Targeted youth programs under Title III; and
- Private sector initiatives under Title III.

Before 1982, there were several other specific CETA programs--including public service employment--which were eliminated in the Omnibus Reconcilation Act of 1981.

Training under CETA is generally provided to persons in families receiving public assistance or to other low-income families. The training programs currently offer three main activities: specific job-related or general educational classroom training, on-the-job training, and work experience--as well as other job-related services. Classroom training is generally in an institutional setting. On-the-job training is provided in actual job settings, generally in private-sector workplaces. Work experience offers a job setting to be used as a sheltered work environment for persons who have not worked recently.

Factors Limiting CETA's Use by Dislocated Workers. Even more so than the Employment Service, activities and facilities under CETA serve low-income persons, limiting the programs' usefulness to dislocated workers. In 1980, 95 percent of all CETA enrollees were economically disadvantaged.[7] In the case of CETA in contrast to the ES, this situation is

---

6. See CBO, Improving Youth Employment Prospects.

7. See Michael C. Barth and Fritzie Reisner, The Role of CETA in Providing Services to Non-Disadvantaged Displaced Workers, prepared for ICF, Incorporated and submitted to the National Commission for Employment Policy (October 1981).

more the result of official guidelines than it is an accident of continuing circumstance. In addition, CETA Prime Sponsors (the local governmental units that administer the program) feel constrained in responding to unpredictable problems such as plant shut-downs and mass layoffs because of frequent changes in funding levels and the need to commit resources early each fiscal year.[8] Finally, dislocated workers themselves have been reluctant to use CETA, because they feel it is intended for public-assistance recipients. Also, the availability of income-replacement payments may have reduced incentives to participate in such programs. Funding levels for job training under CETA were reduced by the Omnibus Reconciliation Act of 1981. Fiscal year 1981 spending was $2.2 billion, compared to $1.7 billion in fiscal year 1982--enough to serve an estimated 600,000 persons.

The Unemployment Insurance System

The Unemployment Insurance (UI) system, administered jointly by the federal government and the states, provides cash benefits to workers for limited periods of unemployment. The states run the UI system according to federal guidelines, and the program is financed by federal and state payroll taxes levied on employers. In most states, eligibility for UI benefits is restricted to persons who have been involuntarily severed from their jobs. Thus, UI can provide temporary income replacement for experienced displaced workers. Eligibility is also contingent upon an applicant's being actively engaged in job hunting; as such, the program is designed to subsidize productive job search.

The UI system today covers 97 percent of all wage and salary workers. Because of work experience requirements, however, an estimated 50 percent of unemployed workers with recent job experience actually receive benefits. Workers with recent job experience are defined as those who held covered jobs and whose unemployment was caused by jobs' termination. Finally, because new entrants to the labor force and those who leave jobs voluntarily are generally ineligible, only about 30 percent of all unemployed people receive UI benefits.

The level and duration of weekly benefits are guided by the program's goals of providing temporary income support and subsidizing job search. The weekly benefit amount is generally intended to replace about half of former earnings before taxes. The states have various formulas for calculating weekly benefit amounts--usually a fixed proportion of earnings

---

8. See Barth and Reisner, The Role of CETA.

from a previous period. For example, many states base benefit calculations on a fraction of high quarter earnings. Many states also add dependents' allowances.[9] Dollar amounts of benefits are constrained by state-established minimum and maximum amounts; the weekly maximums ranged from $90 to $202 in January 1980. How long a person may collect benefits generally varies with work experience or earnings; most states allow for a maximum of 26 weeks, though some grant four to ten weeks longer.

Shortcomings for Dislocated Workers. With respect to serving dislocated workers, the UI system has a number of potential limitations. First, people in this group, as with other groups served by UI, would face vastly different benefit amounts, depending on their states of residence. The portion of previous earnings replaced by UI benefits has been estimated to vary among individuals by 30 percentage points.[10] Second, because many dislocated workers are at or near their peak earnings at the time of severance, UI would probably replace a lower portion of their earnings than of most other workers. The CBO estimates that 65 percent of dislocated workers would receive less than 50 percent income replacement. Finally, dislocated workers, being unprepared for job searching and facing limited job prospects, are likely to exceed maximum benefit durations in most states, particularly if they are enrolled in training programs. Only Massachusetts, California, and Michigan allow extensions of benefit periods for UI recipients participating in job training. Iowa permits benefits to be paid up to 13 additional weeks in cases of job terminations caused by employers going out of business. As stated earlier, the duration of joblessness resulting from plant closings exceeds a year in many instances.

Special Employee Protection Programs

Some unemployed workers may also receive aid from a handful of special employee protection programs. These programs were initiated to serve workers from specific industries unemployed for specific reasons.

---

9. See U.S. Department of Labor, State Unemployment Insurance Laws.

10. Statutory replacement rates ranged in 1980 from 41.6 percent to 66.7 percent if individual incomes did not exceed the maximum or fall below the minimum benefit amounts set by each state. When these constraints are added, rates ranged from 21.7 percent to 52.1 percent. See Wayne Vroman, "State Unemployment Insurance Replacement Rates in 1980," Urban Institute (August 1980).

Trade Adjustment Assistance. The largest of the special federal programs, Trade Adjustment Assistance (TAA) offers aid to displaced workers whose situation can be ascribed to import competition. In some respects, the intended beneficiaries of TAA can be said to offer the closest parallel to the dislocated workers of today. The TAA programs, initiated in 1962 in response to a liberalization of trade restrictions, offer cash benefits under Trade Readjustment Allowances (TRA), training and related services through the ES, and job-search and relocation cash allowances. The rationale for TAA was that certain workers were bearing a disproportionate burden of the costs of a federal policy--tariff reductions and the resulting trade expansion--while society as a whole was enjoying the benefits. Accordingly, TAA benefits were made available to anyone certified by the Secretary of Labor as having incurred damages as a result of foreign imports. The TAA programs were revised under the Trade Act of 1974 and the Omnibus Reconciliation Act of 1981.

Cash benefits for unemployed workers under the 1962 and 1974 TAA programs were more generous than those provided by the UI system. In addition to job search, training, and relocation subsidies, weekly benefits under the 1974 revisions were calculated at 70 percent of a worker's weekly wage or of the average manufacturing wage (whichever was lower) and had a potential duration of 78 weeks--a sharp contrast to UI's usual 26 weeks. The liberal nature of these benefits reflected the views that trade-affected workers differed from normally unemployed workers and that many would be seeking employment in less favorable job markets. Hence the possible parallel with today's dislocated workers.

At least partly because of relaxed certification requirements, TAA outlays grew rapidly. Under the 1962 act, workers were certified if imports were found to be a "major cause" of unemployment and could be directly linked to federal trade concessions. The 1974 revisions stipulated only that imports "contribute importantly" to unemployment; they also disconnected the link from trade concessions to unemployment. These changes may have led to certification of workers from industries in short-term or cyclical declines that were only partly attributable to foreign competition. Applications for TRA increased from 47,000 in fiscal year 1976 to more than 500,000 in 1980. Correspondingly, federal TAA outlays grew from $70 million to $1.7 billion in this period.

In general, the TAA program has been one of income maintenance rather than adjustment. Certified workers' use of employment services under TAA has been sparse. In fiscal years 1976 through 1980, hardly more than one-quarter of all TRA applicants also applied for employment services. Of those who received TRA payments during this period, about

13 percent received counseling, less than 3 percent were referred to training, and about the same share were placed in jobs.[11]

Low levels of service use may have been caused by a combination of factors: staffing limitations at the ES; uncertain and erratic funding; and the fact that between 40 and 75 percent of workers were already reemployed at the time they applied for benefits--which were paid retroactively to the time of layoff. Moreover, many of these workers had returned to work with their former employers, reinforcing the view that TAA was not serving as an adjustment program. A recent General Accounting Office (GAO) study found that 67 percent of workers in a sample of those eligible to apply for TAA benefits through December 1977 returned to pre-layoff employment. Another survey, of workers who received their first TAA benefits in 1976, found that 72 percent returned to their former employment.[12]

The Omnibus Reconciliation Act of 1981 included several changes to limit benefits and emphasize readjustment services. Specifically, the reconciliation legislation capped TAA cash benefits at state UI levels, required that TAA become available only after state UI benefits had been exhausted, and limited the benefit duration (of UI and TAA combined) to 52 weeks. The act also authorizes the Secretary of Labor to require workers receiving TAA benefits for more than eight weeks in an area of high unemployment and no "suitable" employment to choose between training and job search outside the area. Under these limitations, CBO estimates that outlays for TAA income replacement benefits will fall from $1.4 billion in fiscal year 1981 to $118 million in fiscal year 1982. In addition, $25 million has been allocated to states for employment and training services under TAA--a substantial increase from the $3.5 million to $17 million expended annually during the 1976-1981 period.

Other Efforts. The Congress has legislated a number of other special programs, such as airline employee protection, Redwoods employee protec-

---

11. Richard A. Hobbie, Trade Adjustment Assistance for Workers: Program Growth and Possible Changes, Congressional Research Service Issue Brief, IB 80082 (August 1980).

12. See General Accounting Office, Restricting Trade Act Benefits to Import Affected Workers Who Cannot Find a Job Can Save Millions (January 15, 1980). See also Mathematica Policy Research, Inc., Final Report Survey of Trade Adjustment Recipients (December 1979).

tion, and urban mass transit employee protection.[13] These are generally separate from the UI system and share certain charcteristics with each other, such as more generous benefits than are available under UI. A majority of the programs are directly tied to specific industries adversely affected by federal policy; the rest are aimed at workers unemployed for other causes (for example, Disaster Unemployment Assistance).

In general, outlays for these programs have been small. The Redwood Employee Protection Program--created in 1978 by an amendment to the Redwood National Park Act--is the largest of these, with fiscal year 1981 outlays of $31 million and projected 1982 outlays of $11 million (based on funding reductions proposed by the current Administration).

---

13. For a description of these programs see U.S. House of Representatives, Committee on Ways and Means, "Federal Provisions for Special Employee Income Protection Programs and the Unemployment Insurance Program," Committee Print 96-49 (February 15, 1980).

CHAPTER IV. WHOM TO ASSIST--QUESTIONS OF ELIGIBILITY

Because the several current assistance programs seem ill-suited to the needs of dislocated workers, whose numbers appear likely to increase, the Congress may choose to take measures specifically designed to aid such workers. Any such initiatives would have to be influenced by the tight pressures now affecting the federal budget; these make the need to target aid toward people with the most severe adjustment difficulties particularly critical. For these reasons, identifying the characteristics of a possible program's participants, which would in turn determine the size of the eligible population, is of fundamental importance. This chapter analyses the numbers and occupational characteristics of potential participants that different programmatic definitions of dislocation--that is, eligibility criteria--would encompass. Various eligibility criteria are available, including:

- o Displacement in a declining industry,
- o Displacement in a declining occupation,
- o Residence in an economically declining geographic area,
- o Length of tenure in the job lost,
- o Age at the time of severance, and
- o Duration of unemployment.

Taking a broader approach, the federal government could simply offer aid to people whose joblessness resulted from mass layoff or plant closings.

A number of bills have already been advanced in the Congress which address the needs of dislocated workers. These include S. 2036 approved by the Senate, and H.R. 5320, reported by the House Committee on Education and Labor. Each of these proposals takes into consideration questions about whom to assist on the basis of criteria similar to those listed above.

Many of the possible criteria listed above would entail establishing firm cutoff points. Eligibility by age could be set at 45 years, tenure at ten years, duration of joblessness at 26 weeks. As in other federal programs, arbitrary thresholds can be especially problemmatic for people whose circumstances approach but fall short of the cutoff points. Setting them is

likely to be a delicate task for decisionmakers. These points have been chosen for this analysis because they seem to reflect the situations of many dislocated workers; they also have precedents in other major federal programs. The Congress might, however, wish to vary these cutoffs or provide flexibility for local areas in determining them.

The performance of the economy, and particularly the unemployment rate, can alter the size of the dislocated workforce regardless of what criteria serve to determine eligibility for federal aid. The CBO has estimated the dislocated population as of January 1983 under three possible projections of the pattern of unemployment--low, moderate, and high (see Table 2 included later in this chapter). In this chapter, the numbers of possible program participants under different eligibility standards are based on the moderate-unemployment projection.

SINGLE CRITERIA

As indicated in Chapter III, the order of magnitude of the potential eligible population is significantly affected by whether one considers criteria one by one or in combinations. Populations defined by single criteria tend to encompass more diverse groups.

Previous Employment in a Declining Industry

Eligibility could be granted to workers in industries that have been designated as declining for a specified amount of time--for example, two years. Under such a definition, workers from four of the industries thus far hardest hit by both cyclical recession and structural economic change--automotive manufacturing, primary metals, fabricated metals, and wearing apparel--would make up nearly half of the recipient population. Accordingly, more than 60 percent of all adjustment aid would go to residents of the Northeast and Midwest.

Overall, the CBO estimates that some 880,000 workers would be eligible as of early 1983 under this definition. Many would be among those most severely affected by dislocation--older workers with nontransferable skills and serious mobility problems. At the same time, however, many displaced workers in less acute predicaments would also become eligible, namely younger workers who may be more mobile and whom prospective employers may view as more advantageous to hire.

Thus, although this definition would extend aid to persons who do indeed need it, it would not meet the targeting requirement that budgetary stringency may place on the design of an adjustment program. In addition,

this criterion would exclude many workers whose occupations were declining and others adversely affected by the decline of major industries.

Previous Employment in a Declining Industry or Area

An industry's decline often has secondary effects within a geographic area. As an industry loses momentum, other people in its environs--merchants, service providers, construction workers, for example, as well as suppliers to the declining industry--may also lose jobs. Accordingly adjustment aid could be made contingent both on previous employment in a declining industry and also on residence in a declining area affected by those industries. As under the previous definition, recipients would be concentrated in the Northeast and the Midwest--in this instance, nearly 75 percent.

This definition would markedly broaden the potential recipient pool, to a possible 1.8 million people. The same 880,000 industrial workers designated eligible under the previous criterion would still qualify for aid, but another 920,000 workers--secondary losers--would also be granted eligibility.

Of the total, roughly one-fifth would be from the retail and service sectors; another 15 percent would be construction workers. The displacement problems of construction workers, though severe during an economic downturn, are generally regarded as cyclical. Recovery should reactivate the demand--with similar jobs at previous wage rates--for workers in the building trades. In addition, firm-specific skills and benefits are less prevalent in many parts of the service and retail sectors and hence, adjustment problems might be less severe. Thus, this dual criterion would extend eligibility to some people who might readily adjust without federal aid. In so doing, it would be less sharply focused than an adjustment aid program would probably have to be.

Previous Employment in a Declining Occupation

Instead of granting eligibility on the basis of industry or region, adjustment aid could be linked to previous employment in a declining occupation. Qualifying occupations might include various machine and transportation equipment operatives, nonfarm laborers, service workers, and some white-collar professionals, although the former two groups would constitute 75 percent of the total eligible population.

The population of eligible persons this criterion would delineate would be comparable in size to that determined by the standard discussed just previously. Some 1.2 million workers would be designated eligible, but fewer than 240,000 (20 percent) would have been displaced from the currently hard-hit automotive, metals, and wearing apparel industries. Because of the composition of the workforce itself, roughly half of the eligible population would be younger than 35. Thus again, assistance would be less narrowly focused on dislocated workers most in need than budgetary pressures might make optimal.

Length of Previous Job Tenure

Linking eligibility to length of service in the job lost--for example, to ten years' tenure--would somewhat correct the previous criterion's flaw of extending aid to displaced workers in less than the most serious straits. It would concentrate eligibility in the Northeast and North Central regions (about 70 percent) but would spread eligibility among a variety of industries and occupations.

At an estimated 710,000 persons, the size of the eligible population determined by this criterion would be close to the population delineated by the declining industry standard. The composition of the group would be markedly different, however, in that only about 30 percent of all persons meeting the tenure test would be from declining industries. Most eligible workers would be older than 50 years; fewer than 1 percent would be younger than 35. In this respect, a program with eligibility based on this criterion would be better targeted than the other choices previously examined. At the same time, however, perhaps one-fourth of the eligible population would be white-collar persons with perhaps less severe adjustment problems than their blue-collar counterparts.

Age at Severance

Exclusion of all younger workers, if their inclusion were considered a flaw, could be accomplished by basing eligibility on age--for example, 45. The actual overlap would be about 70 percent; that is, about that proportion of all dislocated workers over age 45 also have at least ten years' tenure in their previous jobs. In terms of both geographic and industrial distribution, the effects of an age criterion would closely mirror that of a tenure standard.

Persons qualifying on the basis of age would be somewhat more numerous than those meeting the ten-year tenure standard--890,000 instead of 710,000. Many of the additional 18,000 would be secondary losers in

declining areas (discussed above under "declining areas"). Half of all workers meeting the age test would come from service, retail, and construction businesses, and roughly one-fifth would be white-collar workers. Thus, although an age criterion would pare down the size of the eligible population, it would not improve the targeting of federal assistance.

Duration of Unemployment

Adjustment aid for dislocated workers could be treated as an adjunct to Unemployment Insurance, which in most states is available only for 26 weeks after a worker's severance (see Chapter III). According to this approach, the new program's benefits would take up when UI benefits leave off. This would assure that the recipient population was made up entirely of people with relatively long-term unemployment. The geographic effects of using this standard would be similar to the criteria described above and include fewer workers from declining industries.

Persons meeting the 26-weeks'-unemployment test would number about 560,000--a comparatively smaller population than any of the other single criteria discussed here would delineate. Some 190,000 (about one-third) of all eligible workers would be from retail or service businesses, and roughly 20 percent would be white-collar workers--managers, professionals, clerks, and sales personnel. To whatever extent this latter group is thought not to be the most severely affected by dislocation, this criterion would fall short of meeting strict targeting goals.

MULTIPLE CRITERIA

Following the example of several other major benefit programs that the federal government operates, an adjustment assistance program might be based on applicants' satisfying a combination of criteria. Receipt of UI benefits, for example, is usually contingent on an applicant's having lost a job involuntarily, or his having worked in his previous job for a certain period, and on that job's having been covered by the program. Likewise, eligibility for adjustment aid might be made dependant on applicants' meeting multiple criteria.

The rationale underlying the imposition of multiple criteria is limiting the recipient population to those individuals with the most severe adjustment problems. The single criteria, although related to adjustment, tend to encompass many people whose dislocation difficulties may not be among the worst. The combination standards examined here were selected as being particularly descriptive of dislocated workers' circumstances. Four possible dual criteria are described below:

- Previous employment in a declining industry and length of job tenure,

- Previous employment in a declining industry and age,

- Previous unemployment in a declining industry and duration of unemployment, and

- Previous employment in a declining occupation and either length of tenure, age, or duration of unemployment.

As with the choice of single eligibility standards, setting cut-off points for multiple criteria would entail the Congress' establishing some arbitrary thresholds. The age cut-off could be set at 45 years, duration of unemployment at 26 weeks, and length of tenure at ten years. Such choices are inevitably difficult to make and may disappoint certain numbers of people whose circumstances are marginal.

Three of the multiple criteria considered here are analyzed according to two possible applications: first, as they would affect only primary losers resulting from industrial or occupational decline, and second, as they would encompass secondary losers in declining areas as well.

Declining Industry and Length of Tenure

People who have lost jobs in declining industries after, say, ten years' employment make up a large share of the dislocated workforce with the bleakest prospects of returning to their old jobs and the most acute adjustment difficulties. If aid were granted on this dual basis, the CBO estimates that some 225,000 workers would qualify in January 1983. Most would be semi-skilled laborers and most would be from the automotive, primary metals, textile, and wearing apparel industries. Most would be 50 years of age or older, and 140,000 (75 percent) would be residents of the Northeast and Midwest.

If the definition were broadened to include not only the primary losers from declining industries but also the secondary losers in the same areas who fulfilled the tenure requirement, eligibility would expand by 50 percent, to some 355,000 people. About one-quarter of this population would be workers from the construction, service, retail, and wholesale industries. The broadening of this standard would somewhat diminish the close targeting achievable by excluding secondary losers.

Declining Industry and Workers' Age

Substituting an age threshold--for example, 45 years--in place of the tenure element in the above dual criterion would yield much the same geographic and industrial patterns of benefit distribution, but it would slightly decrease the size of the eligible population to 205,000. This difference is due to the fact that workers in these industries tend to accumulate substantial job tenure at younger ages.

Including secondary losers as well, however, would markedly widen eligibility, perhaps to as many as 395,000 workers. This increase is 60 percent larger than the effect of including secondary losers under the definition that considers tenure. Moreover, the proportion of service and construction workers, retail workers, and wholesalers would nearly double--to more than 40 percent. This is because, although many such jobs are held (and lost) by older workers, length of service with a single employer in these areas tends not to be particularly long.

Declining Industry and Duration of Workers' Unemployment

As under the single standard considering joblessness beyond the UI allowable period of 26 weeks, a multiple test combining this feature with displacement from a declining industry would open eligibility to applicants of all ages. As a result, younger workers (below age 35) would initially predominate among recipients because of the last-in-first-out layoff practices that most employers follow (see Chapter III). Over time, however, if economic change continues to erode employment in traditional manufacturing, this age pattern would shift. The prime beneficiaries would be automotive workers, and 80 percent of beneficiaries would be residents in the Northeast and Midwest. The overall population of eligible workers would number 110,000 in early 1983.

As under the two other multiple criteria discussed above, expanding eligibility to include secondary losers in declining areas would markedly increase the possible recipient population. The number could more than double--to more than 255,000--again, to encompass service and construction workers, merchants, and wholesalers. The ages of this additional recipient pool would be slightly lower.

Declining Occupation and Either Tenure, Age, or Duration of Unemployment

Detaching eligibility from industrial decline per se and linking it instead to occupations for which demand is falling off would immediately

TABLE 2. ESTIMATED NUMBERS OF DISLOCATED WORKERS IN JANUARY 1983 UNDER ALTERNATIVE ELIGIBILITY STANDARDS AND ECONOMIC ASSUMPTIONS (In thousands)

Eligibility Criteria	Number of Workers		
	High Trend[d]	Middle Trend[e]	Low Trend[f]
SINGLE CRITERIA			
Declining Industry[a]	1,065	880	835
Declining Industry and Other Unemployed in Declining Area[b]	2,165	1,785	1,700
Declining Occupation[c]	1,360	1,150	1,095
Ten Years or More of Job Tenure	835	710	675
More than 45 Years of Age	1,050	890	845
More than 26 Weeks of Unemployment	760	560	535
MULTIPLE CRITERIA			
Declining Industry[a] and			
Ten years' job tenure	275	225	215
45 or more years of age	250	205	195
26 weeks of unemployment	145	110	100
Declining Industry Including Other Unemployed in Declining Areas[b] and			
Ten years' of job tenure	430	355	340
45 or more years of age	490	395	375
26 weeks of unemployment	330	255	245
Declining Occupation and[c]			
Ten years' job tenure	235	195	185
45 or more years of age	335	280	265
26 weeks of unemployment	165	120	105

SOURCES: Congressional Budget Office estimates based on tabulations from the March 1980 Current Population Survey. Other sources cited in notes opposite.

TABLE 2. (Notes)

---

a. The declining industry category includes all job losers from industries with declining employment levels from 1978 to 1980. See Marc Bendick, Jr. and Judith Radlinski Devine, "Workers Dislocated by Economic Change: Is There A Need For Federal Employment and Training Assistance?"

b. If a declining industry was located in an area defined as declining, all other job losers in the area were included. Declining areas are defined as those experiencing declines in population from 1970 to 1980 or with an 8.5 or higher percent unemployment rate in March 1980.

c. The declining occupation category includes all job losers from occupations with declining employment levels from 1977 to 1980.

d. High trend assumes continuation of March 1980 to December 1982 growth rates in the number of unemployed workers in each category. Specifically, the number of workers unemployed from declining industries increased by 32 percent in this period--a monthly average of 1.4 percent.

e. The middle trend assumes that the number of dislocated workers will remain constant from December 1981 to January 1983. The number of dislocated workers in December 1981 is estimated by adjusting March 1980 Current Population totals for changes in the level and composition of unemployment through December 1981.

f. The low trend assumes that the number of dislocated workers in each category decreases proportionately with the projected change in the aggregate number of unemployed workers between the first quarter of 1982 and the first quarter of 1983, a reduction of nearly 5 percent.

eliminate most white-collar workers. At the same time, though, workers in a number of industries that are not undergoing decline at all might become eligible for aid. (For example, key punch operators could be included, although the computer industry is thriving.) When used in combination with either more than ten years of job tenure, age over 45, or unemployment longer than 26 weeks, the occupation criteria yields geographic and industrial effects which would roughly mirror the effects of using these criteria one by one (discussed above).

The total number of potential recipients under variations of this approach could range widely from 120,000 to 280,000 (see Table 2). If either age or duration of unemployment were attached to declining occupation, only about one-fourth of all recipients would be workers from the hard-hit traditional manufacturing industries. If the variable chosen instead were length of tenure, less than 40 percent of all recipients would be from that sector. In terms of regional distribution, the combinations using age or tenure would direct 55 and 65 percent of all aid (respectively) to the Northeast and Midwest; the combination using duration of unemployment could direct as much as 80 percent of all aid to those regions.

A FUNDAMENTAL DEPARTURE--LINKING AID TO MASS LAYOFF OR PLANT CLOSING

To differing degrees, all the possible criteria examined above could pose certain equity problems. Some would extend aid to workers with less severe dislocation problems while witholding it from needier people. Many would entail establishing arbitrary and sometimes unfair cutoff points. In addition, some of these criteria might be perceived as unfair, since they would provide aid to some workers involved in particular plant closings but not others. Being nationwide in scope, none could fully take account of regional differences in labor market conditions. To avoid these possible failings, aid could instead be linked to specific situations that are direct reflections of industrial or occupational decline.

Defining eligibility according to a specific cause of unemployment--either plant shutdown or mass layoff--might have several advantages. (An employment reduction might be defined as a mass layoff if the number of job losers exceed some percentage of local employment.) First, if assistance were directed to workers in particular plants, aid could begin before the workers became unemployed. In addition, the involvement of employers would be facilitated and advance notice of layoffs encouraged. Finally and perhaps most important, eligibility would be limited to those workers who are clearly affected by dislocation.

This approach has some limitations, however. For one, assistance might sometimes go to workers who would otherwise be relocated by their employers. Furthermore, when assistance was provided to workers involved in mass layoffs, not plant closings, their employers would have to give assurance that there was no possibility of workers' being rehired. Finally, the Congress would probably want to devise methods that avoided giving employers incentives to expand the numbers of workers laid off in order to qualify all of them for federal assistance.

Although data on the extent of unemployment attributable to plant closings and mass layoffs are unavailable, the number of eligible workers in early 1983 might be approximated by the 880,000 estimated as the number of people unemployed from declining industries. If all workers who were on indefinite layoff or lost their job from a plant in a declining industry were considered as being involved in a mass layoff or plant closing, the number eligible for assistance would be 760,000 in 1983.

CHAPTER V. PROGRAMMATIC APPROACHES TO AIDING DISLOCATED WORKERS

The types of aid the Congress may choose to make available to dislocated workers fall into two general categories:

- Readjustment services to aid workers in making the transition to new employment, and
- Income assistance to ease workers through the quite long periods of joblessness that often characterize dislocation.

In the bills now pending in the House and Senate, the focus is on adjustment services for dislocated workers. The bills would authorize several forms of job search assistance, training, relocation assistance, and pre-layoff assistance. If some form of special income assistance (beyond what is already available under UI) were also considered desirable, it could be linked directly to adjustment aid. Such a twofold approach has a partial prototype in the revisions of TAA now in force, according to which certain workers may have access to cash benefits provided they actively take advantage of adjustment services as well (see Chapter III).

READJUSTMENT SERVICES

Three basic types of readjustment services could be made available to dislocated workers:

- Job-search assistance,
- Training, and
- Relocation assistance.

Such services could be offered one-by-one or in some combination. In addition, the Congress might wish to involve private-sector employers in the provision of such services. Ultimately, however, the success of any readjustment assistance would also depend largely on the performance of the economy and its effect on employment nationwide. Table 3, on page 52, summarizes the potential federal costs of these readjustment options.

Probably the most cost-effective approach to furnishing such adjustment services would be to sequence them from least to most expensive. More mobile workers would probably find jobs relatively easily by using lower-cost forms of job-search assistance; the services entailing greater costs--training and relocation--could be reserved for workers with more difficult problems. Sequencing would be less effective in containing program costs if eligibility were defined by the multiple criteria described in Chapter IV, however, since these tests tend to exclude more mobile workers. Indeed, sequencing of services might be an effective substitute for strict eligibility criteria.

Job Search Assistance

A number of services fall under this term: provision of job-market information, help to dislocated workers in accepting and adapting to new circumstances, improving workers' job-search skills. The mechanism of extending such services can include job counseling, individual job placement activities, and job clubs.

By providing information about the locations and skill requirements of jobs, as well as about the potential compensation available for a worker's present skills, counseling can smooth the adjustment process. Such information can hasten the job-search process by helping workers match their skills with employers' needs and by guiding career changes when necessary. Such advice can be particularly useful to workers with unrealistic aspirations of using their old skills or matching their old incomes in new jobs.

Job-search assistance can also be provided by the Employment Service through placement services and job development--that is, active cultivation of possible prospects. Development efforts can sometimes uncover jobs that would not be listed with the ES, and it can sometimes improve applicants' prospects for being considered in the future.

Job clubs--groups of job-seekers who meet regularly to aid each other's job search--can offer help to groups of dislocated workers, rather than to individuals. These clubs stress self-help by providing job-search materials and facilities, giving training in job-search and interview techniques, and providing peer support. The latter two features may be particularly helpful to dislocated workers, who are likely to have rusty job-hunting skills and to be demoralized.

The federal government's past job-search assistance efforts--both for dislocated workers and other unemployed people--have met with mixed

success. Evaluations of the TAA program (see Chapter III) have concluded that job-search assistance provided by the ES made little difference in participants' future labor-market success.[1] This finding may be partly attributable to staffing limitations at the ES--both in size and in ability to deal with dislocated workers. Preliminary results from a nationwide study of the ES, however, indicate that job-referral assistance may shorten the duration of unemployment by 1.7 weeks for men and 3.8 weeks for women.[2] The evidence on group job-search assistance (job clubs) seems uniformly to indicate high placement rates--for example, more than 50 percent of all displaced steelworkers in Ohio.[3] Finally, counseling--which has been relegated to a minor role at the ES--was found not to have been effective alone but to have been useful as a supplement to other services.[4]

Although evidence on the effectiveness of job-search assistance for assisting dislocated workers is inconclusive, these services might well prove cost effective. The current level of such services is estimated to cost well under $100 per person, while weekly UI benefits could be as high as $160. Hence, if unemployment were shortened by periods ranging from 1.7 to 3.8 weeks, as the preliminary evidence suggests, each federal dollar spent on job-search assistance would be considerably more than offset by reduced UI outlays. A job club--which might cost about $400 per person--would have to shorten unemployment by an average of less than three weeks per participant to recover its costs.[5]

Options for providing job-search assistance specifically for dislocated workrs--possibly as a requisite first stage in a sequence of readjustment services--include expanding the level of current job search assistance and

---

1. See George Neumann, The Labor Market Consequences of Trade Displacement: Evidence from the Trade Adjustment Assistance Program of 1962, Institute for Policy Research and Evaluation, Pennsylvania State University (1978); see also Walter Corson and others, Final Report Survey of Trade Adjustment Assistance Recipients, Mathematica Policy Research, Inc. (December 1979).

2. See Elise Bruml and John Cheston, "Placement Assistance in ES, WIN, and CETA" (March 1981).

3. See Elise Bruml, "Self-Directed Group Job Search: The Results," U.S. Department of Labor, Assistant Secretary for Planning, Evaluation, and Research (July 1981).

4. See Bruml and Cheston, "Placement Assistance," pp. 18,

5. See Bruml and Cheston, "Placement Assistance," p. 24.

expanding the use of job clubs. In addition, other job-search assistance strategies, available to all unemployed workers might also be considered.

Raising the Level of Current Job-Search Assistance. The Congress could fund more intensive services for dislocated workers. Under current ES funding, few people receive such individual services as counseling and job development. Evidence suggests, however, that more such personal services could increase the number of job listings at the ES and ultimately benefit both employers and job seekers.[6] For example, counseling and job development activities might be provided to half of all job applicants. The CBO estimates that this level of service could be provided at a cost of about $90 per worker in fiscal year 1983[7]--translating into total outlays of from $10 million for the smallest category of eligibility (see Table 2 in Chapter IV) to $161 million for the largest (see Table 3).

Expanding the Use of Job Clubs. Although the job-club method of job seeking is costlier than the ES' traditional methods, it may have potential to place more workers relatively quickly. In addition, traditional services such as counseling might be more effective if used in conjunction with job clubs. If participation in job clubs were required of all dislocated workers determined to be eligible for federal aid, fiscal year 1983 outlays could range from $44 million to $714 million. This wide disparity arises from the different possible methods of determining eligibility. The $44 million would result from counting 110,000 as eligible; the $714 million from counting 1.8 million as eligible.

Other Job Search Assistance Strategies. Another means of supplementing present job-search assistance would be to expand the Job Service Matching System (JSMS), a computerized matching process that lists applicants best qualified for job orders on file. At present, the JSMS is operated by 24 states and reduces ES staff time required for matching activities. The system may, however, be of only limited value for dislocated workers, who lack skills that are in demand and who therefore need to make career changes--a complex situation that the JSMS cannot address. Furthermore, initial evaluations indicate that computerization has done little to improve

---

6. See Bruml and Cheston, "Displacement Assistance," pp. 16.

7. The estimates are based on time requirements of one hour for application and screening, three hours for counseling and testing, and five hours for job development. One ES staff-hour, including overhead, is estimated to cost $17.85 in fiscal year 1983. All eligible workers are assumed to participate in at least the initial application and screening process.

the ES' effectiveness.[8] Nonetheless, costs of expanding this system to states where unemployment is now particularly high--such as New York, Michigan, California, Illinois, and Indiana--and assuring continued operation in states already using the system are likely to be relatively small and certainly under $10 million.

Job Training

After an initial period of job-search assistance, workers who are still unemployed might be considered for job training. If effective, training can increase productivity and the value of future earnings. It is also likely to be particularly valuable for unemployed workres whose job-finding problems derive from skills that are firm-specific or in fact obsolete.

Training might have limited value for dislocated workers relatively close to retirement, however. Even with an augmented set of skills, retrained workers might have to start new jobs at entry-level wages. Although future wage growth might be greater than without training, workers with only a few years before retirement would have little time to return the investment of federal funds.

Training does not seem to have been successful in the TAA program. Recent studies of workers certified for TAA benefits find no appreciable effects of training either on the length of time spent unemployed or on workers' subsequent wages.[9] Though perhaps attributable to data limitations, this finding of apparent failure may also be a result of the type of training provided. Workers under TAA have generally received the same type of training as is provided in the major federal programs that primarily serve disadvantaged people. Because this training is often designed to prepare people for first jobs, it may not be applicable to dislocated workers with long histories of satisfactory job performance.

Specific options for providing training for dislocated workers, which could be used separately or in combination, include:

- Expanding vocational training programs;
- Implementing on-the-job training; and
- Subsidizing higher education programs.

---

8. See Bruml and Cheston, "Placement Assistance," pp. 11.

9. See Neumann, The Labor Market Consequences, pp. 5-15.

Expanding Vocational Training Programs. One option for training dislocated workers is for the federal government to offer vocational and technical education. Vocational training in skills for particular industries (for example, welding or data processing) is provided by private vocational and technical schools, as well as in programs in community colleges.[10] Some states, such as Minnesota, also support such schools. This approach may offer several advantages for dislocated workers. For one, older experienced workers would likely benefit from direct training in a particular skill.[11] Postsecondary vocational education has been found to increase the future earnings of both older men and older women, possibly because workers with basic work skills and family responsibilities are better able to take advantage of skill training. In addition, many dislocated workers may already have basic skills that would allow them to exempt portions of the vocational curriculum, so training time could be reduced. Depending on what eligibility criteria were applied, fiscal year 1983 outlays for vocational education would range from $132 million to $920 million.[12]

Subsidizing On-the-Job Training. Another option for providing skills to dislocated workers would be to subsidize the costs of private-sector on-the-job training. This approach might have several advantages. Dislocated workers have already demonstrated that they are trainable and reliable, so employers might be willing to hire and train these workers with the help of subsidies that are smaller than the full cost of other types of training. In addition, many productive skills are learned on the job in any case, and as discussed earlier, firm-specific training promotes long-term relationships between firms and their workers. The latter element could lead to future

---

10. Other than elementary and secondary vocational education, which would not usually be relevant for dislocated workers.

11. See CBO, Improving Youth Employment Prospects: Issues and Options.

12. For the remainder of the chapter, numbers of recipients are estimated at 82,500 to 575,000. This assumes that 50 percent of workers eligible under single criteria and 75 percent under multiple criteria would remain unemployed after initial job search assistance. This range does not include the largest group (declining industry along with the other unemployed workers in declining areas). Costs for this group can be calculated as roughly twice the estimate for declining industries.

    The cost estimate is based on $3,200 per training slot--the average cost for TAA trainees. For all training options, it is assumed that 50 percent of dislocated workers still unemployed following the initial job search period would participate.

employment stability as well as wage and benefit growth. Because of older workers' limited remaining work life, however, employers might be reluctant to hire and provide on-the-job training to older workers, despite government subsidies for training. This is likely to be the case if it is expected that the labor market for younger workers will be tight in the future. That is, firms might prefer to hire and train younger workers now, since they will be more costly in the future. An on-the-job training program that subsidized 30 percent of earnings for six months would cost between $90 million and $650 million in fiscal year 1983, depending on the characteristics and size of the recipient population.[13]

Subsidizing Higher Education Programs. Finally, dislocated workers could get further training at higher education institutions such as community colleges. Some workers--particularly those with high school diplomas--might make use of college-level courses or programs in order to change careers. College-level course work in computer programming, for example, could qualify workers for job openings--and often, for further on-the-job training--in a rapidly growing occupation. College-based training would likely be of particular benefit to younger, more educated workers, but it might be less beneficial to older, blue-collar workers. If 10 percent of the dislocated workers who undertook training were to use higher education institutions, federal outlays for fiscal year 1983 could range from $4 million to $25 million.[14]

Using a Combination of Training Methods. The Congress might also wish to make all three types of training available to dislocated workers. Depending on each worker's current skill, experience, and employment aspirations, one particular type of training might be more appropriate than the others. Such a choice might add flexibility to an adjustment program and increase the chance of successful results. The CBO estimates that providing vocational education, on-the-job training, and higher education opportunities in community colleges would require fiscal year 1983 outlays of between $103 million and $717 million, depending on the numbers of qualifying recipients.[15]

---

13. Based on an estimated average weekly earnings of $288 in 1983.

14. Federal costs of providing higher education are calculated at $433 per trainee--the estimated one-year cost for public, two-year institutions.

15. The estimate is based on 10 percent of those undertaking training being placed in higher education institutions, with the remainder split between vocational and on-the-job training.

Relocation Assistance

For some dislocated workers who remain unemployed beyond the initial period of job-search assistance, geographic relocation might be considered the best adjustment option. In areas with high unemployment, there could be only a limited number of positions that even retrained workers could fill. In addition, many workers may already have the skills to take jobs in other regions. Both the financial and nonfinancial costs of moving, however, may make workers reluctant to relocate.

Past relocation efforts have had mixed success. Under the previous TAA program, although relocation allowances and a portion of reasonable moving expenses were paid, fewer than 1 percent of workers who applied for employment services took advantage of these provisions.[16] On the other hand, in an experimental Department of Labor job-search and relocation project conducted between 1976 and 1980, local employment offices that provided a combination of inter-area job information, job search grants, and financial assistance to cover moving expenses were successful at encouraging applicants to relocate to accept employment.[17] Moreover, moves to high employment areas were made to a substantial degree by groups not ordinarily disposed to mobility.[18]

Specific options for providing relocation assistance include subsidizing moving expenses and job-search costs, and expanding programs that provide inter-regional labor-market information.

---

16. See Richard Hobbie, "Trade Adjustment Assistance for Workers."

17. See Westat, Inc., Job Search and Relocation Assistance Pilot Project (JSRA): Final Report, prepared for the Office of Policy, Evaluation, and Research, Employment and Training Administration, U.S. Department of Labor (August 1981).

18. Evidence presented in Chapter II implies that workers with less education or who held blue-collar jobs were less likely to relocate. Among enrollees in the DOL program with less than 12 years of education, however, 45 percent relocated, as compared with 16 percent of college graduates. Furthermore, relocation rates for nonfarm laborers and craftsmen (44 percent) and operatives (38 percent) were substantially higher than for professional technical, and managerial workers (16 and 13 percent, respectively). See Westat, "Job Search and Relocation Assistance."

Subsidizing Moving Expenses and Job Search Costs. Encouraging workers to move to jobs in other geographic areas could be done either by extending the existing TAA relocation provision--which pays 90 percent of reasonable job-search expenses up to a maximum of $600, plus an additional relocation allowance of up to $600--or by authorizing a new subsidy program. Assuming that 5 percent of all dislocated workers would relocate, these provisions could cost between $5 million and $35 million in fiscal year 1983, under a range of assumptions regarding the criteria that would qualify recipients.[19]

Expanding Inter-Area Labor Market Information Programs. Expanding inter-area job information could also facilitate relocation by reducing uncertainty about employment prospects in other areas. Computerized listings of job openings in other labor-market areas and other related information could help advisers to match workers with jobs--and possibly diminish the perceived risks of relocation.

The Department of Labor now has available an interstate clearing system--operating by mail between state agencies and a central office in Albany, N.Y.--that attempts to match employees willing to relocate with employers willing to recruit out-of-area workers. This system might operate more efficiently if state offices were linked directly to Albany by computer. A lower-cost alternative might be to connect a selected number of states that are designated labor-shortage areas with those selected as labor-surplus areas. Although the exact cost is uncertain, this choice would probably cost less than $5 million in fiscal year 1983. Either method would be limited, however, by the willingness of employers to list their openings with the ES.

Table 3 summarizes the potential federal costs of these possible adjustment assistance efforts.

Private Sector Involvement in the Adjustment Process

Another approach to aiding dislocated workers would be to involve private employers--particularly those conducting layoffs--more heavily in the adjustment process and in providing adjustment services. Employers know their workers' skills and talents and could aid the ES's counseling and placement activities. Employers might also be instrumental in gaining the cooperation of other area employers who might absorb some of the unemployed workers. Finally, involving employers might encourage advanced notice of layoffs or plant closings--allowing readjustment activities

---

19. The estimate assumes the subsidy would equal the maximum of $1,200.

TABLE 3. FEDERAL COSTS OF PROVIDING READJUSTMENT SERVICES TO DISLOCATED WORKERS DEFINED BY SELECTED ELIGIBILITY CRITERIA (Fiscal Year 1983, in millions of dollars)

Eligibility Criteria	Expand Job Search Assistance	Expand the Use of Job Clubs	Subsidize Relocation Expenses[a]	Expand Job Training[a,b]
Declining Industry	79	352	26	549
Declining Industry and				
More than ten year's job tenure	20	90	10	210
45 years of age or older	18	82	9	192
26 weeks unemployment or more	10	44	5	103
Declining Industry Including Secondary Losers	161	714	54	1,113
Declining Industry Including Secondary Losers and				
More than ten years' job tenure	32	142	16	332
45 years of age or older	36	158	18	369
26 weeks unemployment or more	23	102	11	239
Declining Occupation	104	460	35	717
Declining Occupation and				
More than ten years' job tenure	18	78	9	182
45 years of age or older	25	112	13	262
26 weeks unemployment or more	11	48	5	112
Plant Closings and Mass Layoffs	68	304	23	474

SOURCE: Congressional Budget Office.

a. Assumes that 50 percent of workers under single eligibility criteria and 75 percent of workers under multiple criteria would remain unemployed after the initial period of job search.

b. Assumes 10 percent of trainees in community colleges, 45 percent in vocational education, and 45 percent in subsidized on-the-job training.

to begin before separation and shortening the length of time workers spend unemployed.

Past adjustment efforts involving the cooperation of business, labor, and government agencies have achieved some success. For example, in 1967, the Armour Company extended from three to six months the period between announcing the closing of an Omaha meat-packing plant and the actual shut-down. During that six months, the company provided office space for counseling and aided the ES in retraining and placement efforts. The workers from this plant were generally successful in finding new jobs--partly because of Armour's efforts and partly because of a generally good economic climate in Omaha.

Canada's Manpower Adjustment program provides another model for private-sector involvement in readjustment assistance. The Canadian program pays up to 50 percent of research and planning costs undertaken by business and labor for the purpose of meeting adjustment needs; it also provides assistance through a government manpower consulting service. Evaluation of this effort has generally been favorable, although the program encountered less success where there were large numbers of unemployed workers--particularly older, industry-attached workers--in regions with poor economic conditions. From February 1965 through January 1977, the program assisted 1.3 million workers at a cost of roughly $4 million.

Finally, an experimental program in Michigan provides a model for including the private sector in an adjustment assistance program that has met with initial success. The Downriver Community Conference Economic Readjustment Program has operated since July 1980 to reemploy workers displaced due to plant closings in southeastern Michigan. The program enrolled 2,000 employees from five plants which were made eligible. The administering agency, the Downriver Community Conference, is a public nonprofit community service agency. The program was funded through CETA Titles II-B and II-C and by a Title III National Demonstration grant (see Chapter III).

In order to meet the goal of "returning these workers, as expeditiously as possible, to high quality jobs in the labor market," the program staff worked extensively with local and some out-of-area employers. These employers were viewed as customers who purchase the program's products--already skilled or retrained workers. Taking this perspective, private employers were involved in several ways. For one, employers were contacted continually to determine their current and future needs for skilled labor. For another, the private sector was involved in program operations such as review of curricula for classroom training and provider capability, and assessment of skills in demand.

Services under the program were sequenced in order to concentrate resources on those most in need. Participants were required to attend both initial orientation, enrollment, and aptitude testing sessions, and a four-day job-search training session. Following these sessions, program staff attempted to screen participants into the most appropriate types of placement, training, and relocation activities.

The program has met with initial success. Approximately 70 percent of participants' terminating from the program during the first phase (July 1980-October 1981) have been reemployed.[20] Again, reemployment rates were somewhat higher for more educated and younger workers.

INCOME REPLACEMENT

Because the difficulties of dislocated workers may differ from those of other unemployed people, the Congress might wish to consider altering the present income assistance system to provide special aid to dislocated workers. Because this group might exhaust regular UI benefits before becoming reemployed and would likely have a smaller portion of their previous earnings replaced by UI than other unemployed workers, the Congress might consider benefits of longer duration or more generous in amount. These benefits would help cushion the financial impact of dislocation, so that individuals could participate in job training or other adjustment programs. The major disadvantage is that such benefits could reduce job-search incentives and lead to longer spans of unemployment, as has apparently occured in past programs.[21]

Options for altering the UI system for dislocated workers include extending the duration of benefits and implementing a uniform benefit formula.

---

20. See J. W. Frees, and others, Reemploying Displaced Workers: The Implementation of the Downriver Community Conference Economic Readjustment Program, Abt Associates, Inc. (May 12, 1982).

21. Increased benefit levels and longer eligibility periods may have caused one to three weeks of additional unemployment under TAA. See Neumann, The Labor Market Consequences of Trade Displacement, and Mathematica Policy Research, Inc., Survey of Trade Adjustment Assistance Recipients.

Extending the Duration of Benefits

One option for altering the income replacement system for dislocated workers would be to extend the time over which UI benefits were available. For example, UI benefits might be extended for 26 weeks (as occurs now under TAA) for a total duration of one year. Extending benefits would raise federal outlays substantially. If dislocated workers received ten additional weeks' benefits, on average, federal outlays in 1983 would increase by between $132 million and $920 million.[22]

Implementing a Uniform Benefit Formula

For some dislocated workers or all, UI benefits could be supplemented so that a uniform, nationwide minimum earnings replacement rate was achieved--as was the case under past TAA programs.[23] To curb costs and work disincentives, the Congress might set this level somewhat lower than under past programs.

Depending on the replacement rate chosen, a national benefit level could require federal supplements to a majority of dislocated workers; this would, however, raise outlays considerably. If, for example, the program replaced 50 percent of previous weekly wages up to a maximum set at the average manufacturing wage, about 50 percent of all dislocated workers would receive supplements to their UI benefits. Federal UI outlays for fiscal year 1983 would increase by $182 million to $1.3 billion.[24]

INCOME REPLACEMENT LINKED TO ADJUSTMENT SERVICES

Eligibility for special unemployment benefits could be made contingent on an applicant's participation in adjustment services. For example, the program might require applicants to undertake job training or relocation--if deemed necessary by the ES or some other administering agency--in order to receive extended or supplemental benefits.

---

22. The estimate is based on an average weekly payment of $160. To the extent the regular federal/state extended benefits were in effect, this estimate would be reduced.

23. Depending on what uniform level was set, some state UI benefits might be higher than at present.

24. The estimate is based on a projected average weekly manufacturing wage of $350 in fiscal year 1983.

Linking income replacement to adjustment services might have several advantages. For one, it might reduce work disincentives and increase the use of adjustment services; it would offer financial incentives--that is, special benefits could only be obtained by participating in these services. For another, linking special cash benefits to adjustment services would aid in targeting assistance to workers with more serious adjustment problems. Workers who could find jobs in their local area at wages higher than the UI benefit amounts, would be less likely to undertake training and relocation, and hence, they would not receive special unemployment benefits.

Such linking might further focus income replacement benefits on workers with the most severe adjustment problems if only extended benefits--not higher benefits--were provided and more extensive employment services were delayed for some time after layoff, as would be the case if these services were sequenced. Workers who could adjust easily on their own or with the aid of low-cost job-search assistance would have little incentive to remain unemployed in order to collect income replacement benefits, since these benefits would be contingent on participation in training or on relocation.

That some people unlikely to gain from employment services would be induced to participate in order to receive income replacement benefits is a potential drawback. The resulting increase in costs for adjustment services, however, would probably not exceed the reduced costs from discouraging those who could find jobs from applying for cash benefits.